FINANCIAL TIMES

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No. 29,326 · Monday May 21 1984 · D 8523 B

Steelmakers come back from the brink, Page 20

NEWS SUMMARY

GENERAL

Soviets call for space arms ban

Soviet President Konstantin Chernenko called for immediate talks to ban space weapons, in a letter to a group of U.S. scientists published in Soviet newspapers yesterday.

He called for talks without conditions or reservations.

Meanwhile, the U.S. Defence Department said there was nothing new in the warning given by Soviet Defence Minister Dmitri Ustinov that its submarines off the U.S. coast could deliver a nuclear strike to American targets within 10 minutes. It said the U.S. Government had long estimated it would have five to seven minutes warning of a Soviet nuclear strike from the sea. Page 2

West German Foreign Minister Hans-Dietrich Genscher is due in Moscow today to urge the Kremlin to resume nuclear arms limitation talks with the U.S.

84 die in Bombay

Deaths after two days of sectarian violence in Bombay had reached at least 84 last night. Earlier story, Page 2

Floods hit 1.5m

Floods in North-east India and Bangladesh killed 85 and left 1.5m homeless.

TUC role in strike

Britain's Trades Union Congress (TUC) is now anxious to play a role in settling the miners' strike, which is entering its 11th week. There are no signs that the left majority in the miners' leadership is ready for compromise. Page 9

Israel bombs base

Israeli aircraft bombed a missile base in Syrian-held Lebanon, in the Bekaa valley 3km from the Syrian border. Israeli soldiers shot dead a Lebanese civilian and wounded two others in Sidon after a patrol was attacked with grenades. Page 2

Peron returns

Peronist party leader Maria Estella Peron arrived back in Argentina from exile in Spain for talks with President Raul Alfonsin aimed at achieving a consensus on economic and political issues. Page 3

Vietnamese claim

Vietnam says its forces have killed wounded or captured 500 Chinese troops along its northern border since early July.

Yu leads Taiwan

Taiwan's Nationalist party has named economist Yu Kuo-Hwa as premier in succession to Sun Yun-Suan, who suffered a stroke three months ago. Page 2

Miners meet

Mining trade union leaders from 49 countries met in Paris under the chairmanship of Britain's Arthur Scargill to discuss setting up an international body.

Soviet soldiers stay

Two Soviet soldiers, who have completed two years' internment in Switzerland after capture by guerrillas in Afghanistan, are being allowed to stay.

Mass execution claim

Left-wing Iranian opposition group Mujaheddin said that more than 400 political prisoners were executed in Evin prison, Tehran, on May 1.

Hunger strike over

The Socialist mayor of Briançon in the French Alps ended a five-day hunger strike after the Government blocked a decision to close a local aluminium factory.

BUSINESS

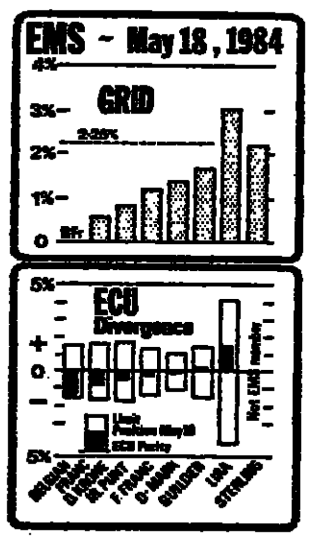
Swiss to keep banking secrecy

SWITZERLAND rejected by about three-to-one in a national referendum a Socialist Party move to end banking secrecy, and by about 55-45 a National Action Party proposal to ban sale of residences to foreigners. Page 20

SPAIN is considering easing the protection it gives to its commercial vehicle industry. Page 20

VENEZUELA today raises the price of its heavy crude oil by an average of $0.63 a barrel to $24.65.

THE D-MARK was slightly easier in the European Monetary System last week, and remained depressed



by a strong dollar. Fears of a disruption in oil supplies after Gulf war attacks on tankers boosted the dollar late in the week. Earlier, central bank intervention had helped to contain the dollar's rise.

The D-Mark's softer trend effectively removed any downward pressure on the weaker members such as the Belgian franc.

Although the Belgian franc remained the weakest currency in the system, it was placed comfortably above its lower divergence limit.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

BRAZIL and China are to sign an agreement for nuclear co-operation including prospecting for uranium and building and operating power stations. Page 4

BRAZILIAN steel industry chiefs are trying to persuade Britain's Davy Corporation and merchant bankers Morgan Grenfell to put a further $120m into the first phase of the unfinished $5.6bn Acominas integrated steelworks in Minas Gerais state. Page 4

DENMARK today launches a $1bn standby credit to replace a large part of its existing undrawn loans. Details, Page 21

EUROROUTE consortium will attack the report by five UK and French banks on the financing of a Channel tunnel which is to be published tomorrow. Page 39

TRADE UNIONS in industrialised countries will press for higher employment and control of technological change at the world economic summit in London on June 7-9. Page 9. Editorial comment, Creating jobs in Europe, Page 18

LORD PENNOCK, president of the Confederation of British Industry from 1980-82, will take over next month as president of Unice, the union of European industries. Men and Matters, Page 18

The editorial content of today's international edition has been restricted because of continuing industrial action by IG Druck und Papier at Frankfurter Societäts-Druckerei, where the edition is printed. This prevents the publication of late-breaking news.

Latin Americans step up demands on debt and trade

BY ANDREW WHITLEY IN RIO DE JANEIRO

Prospects of a head-on clash between Latin America's leading debtor countries and Western governments over interest rates and trade protectionism have risen sharply, follwing the release at the weekend of an unprecedented, tough statement by the presidents of Brazil, Mexico, Argentina and Colombia.

The four heads of state warned that high international interest rates and the proliferation of protectionism were threatening the trend towards democracy in Latin America as well as the economic security of the continent.

"Our countries cannot accept these risks indefinitely. We do not accept being pressed into forced bankruptcy and a prolonged economic paralysis," the joint statement said.

Foreign and finance ministers from the four countries are to meet next month to discuss common action over their grievances. Other Latin American countries are being invited to attend.

The four signatory countries, which together have an external debt of about $240bn, called on the industrialised world to adopt concrete measures to bring about "substantial changes" in their financial and international trade policies. A concerted effort should be begun without delay, they urged in a statement issued simultaneously in Brasilia, Mexico City, Buenos Aires and Bogota.

In particular, they said Latin America's debtos must obtain "adequate" amortisation and grace periods on debt repayments, as well as reduced interest rates and other financial charges.

Last week, U.S. President Ronald Reagan, and Mr Donald Regan, U.S. Treasury Secretary, in separate forums, both rejected the possibility of any fundamental changes in debt renegotiation schemes. President Reagan dismissed the concept of artificially-set limitations on interest payments, an idea which has been gaining considerable support in Latin America, among government officials and bankers, in recent weeks.

In a pointed reminder to creditor governments of the adjustment efforts made by many Latin American countries since the crisis erupted in August 1982, the presidents said: "We were the first to demonstrate our diligence in fulfilling our financial commitments in ways compatible with the interests of the international community."

But, they declared, successive increases in interest rates, the prospect of new increases and the proliferation of protectionist measures had created "a sombre panorama for our countries and for the region as a whole."

The Brazilian Foreign Ministry said the joint action being taken did not signify a common renegotiation of their debts.

Jimmy Burns in Buenos Aires adds: According to informed sources in Buenos Aires, the need for a co-ordinated Latin American response was first raised in detail during a secret Cabinet meeting led by Sr Raul Alfonsin, the Argentine President, 10 days ago soon after the announcement of the U.S. interest increase.

Japan ready to ease restrictions on yen

BY ALAN FRIEDMAN IN ROME AND JUREK MARTIN IN TOKYO

THE U.S. and Japan are on the brink of agreeing on the long-sought liberalisation of the Japanese capital market and of the country's currency.

Mr Donald Regan, the U.S. Treasury Secretary, said in Rome at the weekend that crucial talks will be held today and tomorrow in the Italian capital and a text of the agreement could be published next week.

A senior Bank of Japan official confirmed that agreement was very near. Mr Regan said that his deputy, Mr Beryl Sprinkel, would meet today and tomorrow with the Japanese Vice-Minister of Finance in Rome with the aim of achieving an agreement to be presented to Mr Regan and his counterpart in Japan in Wednesday.

The U.S. Treasury Secretary, in Rome to attend a meeting of the Finance Ministers and Central Bank Governors of the Group of Ten, (which also includedSwitzerland as an eleventh member) industrialised nations, said the U.S. objective was to see the Japanese yen develop as "an international currency" and "to open up the Japanese market."

The Japanese central bank official said the outline of the accord included provisions allowing foreign banks more access to long-term funds in Japan and expanding the Euroyen market by allowing more Japanese currency to be held outside Japan.

It is generally believed in Tokyo that the U.S. and Japan have effectively agreed to shelve what had become the most controversial aspect of their financial negotiations – the imposition by Japan of its 20 per cent withholding tax on most Euroyen issues.

The agreement to which Mr Regan referred will probably include a Japanese commitment to continue to study the repeal of the withholding tax on overseas yen instruments, but no firm promise beyond that.

Japan has consistently maintained that the U.S. demand that the tax not be applied constituted a fundamental threat to Japanese financial and monetary controls. It has also pointed out that Eurodollar issues are subject to U.S. withholding tax and that the U.S. was asking of Japan what it was not itself prepared to concede.

Mr Regan's attitude in Rome also suggests, from the Japanese perspective, that the U.S. Administration has imposed a political solution on what had been dogmatic and stringent Treasury arguments.

This, it is seen in Tokyo, reflects both the U.S. and Japanese political calendars with President Ronald Reagan and Mr Yasuhiro Nakasone, the Prime Minister, feeling the need to be able to present some form of agreement on bilateral disputes to their respective constituencies in advance of their re-election contests in November.

Even so, Japan is undoubtedly in the process of making, by its standards, several important concessions. These are likely to include creation of a meaningful Treasury bill market, general relaxation of the terms on Euroyen issues, possibly permitting foreign exchange broking along Western lines and allowing, though not on the terms originally advanced by the U.S. foreign bank entry into the Japanese pension fund market.

Saturday's day-long Group of Ten ministerial meeting ended in Rome without any agreement, but with ministers promising to pursue a study of measures needed to improve the workings of the international monetary system.

The meeting discussed a report by the G-10 deputies committee on the functioning of floating exchange rates, on ways to strengthen International Monetary Fund (IMF) surveillance of countries, on the issue of international liquidity and on the future role of the IMF

IG Metall agrees to new talks

BY JAMES BUCHAN IN BONN

A RAY of hope appeared for the embattled West German motor industry at the weekend when IG Metall, the 2.6m-strong engineering union, said it would resume talks over a shorter working week.

The union's acceptance of the employers' offer to hold a third round of high-level talks will however, not, prevent the week-long strike from spreading to the areas around Frankfurt, where the union will today call out 33,000 workers at plants supplying components to the motor industry.

Local employers in north Baden-Württemberg, where more than 13,000 IG Metall members have been on strike since last Monday, say they will lock out 65,000 employees from tomorrow.

The industrial atmosphere was further poisoned at the weekend when a local official of the printers' union, which is also demanding a 35-hour week, was injured after being run over by a delivery van while picketing a Stuttgart newspaper.

Herr Erwin Ferlemann, the chairman of the IG Druck printers' union, was bitterly criticised by the Government and employers at the weekend for "press censorship." Herr Ferlemann told the party congress of the Social Democrats (SPD) that he would try to ensure that the Süddeutsche Zeitung, a newspaper sympathetic to the SPD, escaped disruption which affected several Saturday and Sunday newspapers.

IG Metall is still insisting that talks with employers take place only at regional rather that at national level.

However, the union is coming under increasing pressure not only from the threat to its strike chest of lock-outs, but also the decision by the Federal Labour Office that it would not pay short-time or unemployment benefit to workers affected by the closures in the motor industry.

As many as a quarter of million people could be out of work by midweek as Volkswagen and Daimler Benz follow BMW and Audi in closing their vast assembly plants in response to the shortage of components.

A number of unions have called for warning strikes and marches in solidarity with IG Metall and the printers, including the catering union, the railwaymen and white-collar bank employees.

IMF and Nigeria fail to reach loan terms

By Quentin Peel, Africa Editor, in London

TALKS BETWEEN Nigeria and the International Monetary Fund (IMF) have ended inconclusively in Lagos, without any agreement on the $3bn standby credit being sought by the Nigerian Government.

The seven-man IMF team left the Nigerian capital at the weekend, a week earlier than expected, without having come significantly closer to agreement on the economic stabilisation package to back the three-year loan.

However, a senior Nigerian official insisted yesterday that the talks had not broken down, that progress had been made, and that a further meeting had been arranged.

The talks in Lagos were scheduled to last 2½ weeks, and were expected to produce an agreement on the terms and conditions of the loan. Negotiations began more than 12 months ago. Nigeria has asked for an extended fund facility of between $2.6bn and $3.2bn, to bridge a continuing balance of payments deficit.

The failure to reach a conclusion is likely to reinforce growing pessimism among bankers and businessmen in Nigeria about the prospects for any agreement, with three fundamental issues unresolved.

The IMF is seeking a devaluation of the naira, a reduction in subsidies for petroleum products, and some liberalisation of trade restrictions, all of which are opposed by the military regime in Lagos.

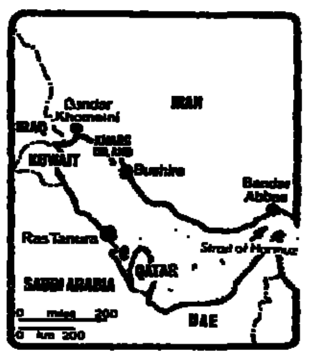
The inconclusive result is also likely to cause problems at the talks scheduled to take place in London on Thursday between Nigeria and its major trading partners, to agree on terms for rescheduling trade arrears which have been guaranteed by the major Western export credit agencies.

The leading agencies, including Britain's Export Credits Guarantee Department, France's Coface, and West Germany's Hermes, have insisted that they would only do a deal if Nigeria also reached agreement on an IMF-backed programme. They will be asking for details of what progress has been made.

Denmark launches $1bn standby credit, Page 21

U.S. fears Saudi entry in Gulf war

BY OUR MIDDLE EAST STAFF



FEARS ARE growing in Washington that the next major development in the Gulf conflict could be the direct involvement of the Saudi air force. Saudi Arabia and Kuwait were reported to be flying reconnaissance sorties over shipping lanes at the weekend as Iraq sank another bulk carrier in the area.

Irak's attack on the 16,657-ton Panamanian-registered Fidelity served emphatic notice that it would not cease attacks on vessels visiting Iranian ports. The vessel, which was carrying a cargo of steel from Spain, went down about 20 miles south of Bushire.

Iraq's determination to intensity its siege of Iranian ports was emphasised by the official newspaper Al Jumhuriya, which said in an editorial that further air strikes would be launched to force Iran to the negotiating table. In future, attacks would be stronger and more powerful "to force the Iranian regime into a dreadful corner that will leave it no way out but peace."

Saturday's sinking pre-empted any pan-Arab moves to persuade Iraq to desist from such attacks.

President Ali Khamenei of Iran yesterday repeated Teheran's new policy of threatening all sea traffic in the Gulf in retaliation, declaring that "the waters are (either) all secure or all insecure." Mr Mir Hossein Musavi, Prime Minister, was quoted as saying: "Our policy is to deal a stronger blow against any blow."

The Iranian newspaper Kayhan International warned that Iran would have to act against Saudi Arabia and Kuwait soon if they did not re-assess their policy of supprt for Iraq. "Militarily speaking, they are weaker and more penetrable than they think," it said.

Kayhan International claimed that Iran had "strong winning cards inside these two countries" – a reference to the Shia minority Moslem communities in Saudi Arabia and Kuwait.

Fears about the involvement of the Saudi air force follow the rocketing by an Iranian aircraft last Wednesday of the Saudi-owned Yanbu Pride near the Saudi port of Ras Tanura. Saudi F-15s scrambled but did not receive early enough warning to intercept the attacking aircraft.

Saudi Arabia and the conservative Arab oil producers of the Gulf have so far refused a U.S. offer of air cover made towards the end of April. Acceptance would involve providing base facilities, which the Arab states would want to take only as a last resort.

Iraq's Arab allies in the region are meanwhile preparing themselves for enforced participation in the conflict.

In a statement at the weekend, Sheikh Salem al Sabah, Kuwait's Minister of Defence, warned that his Government would defend the state's territory at any expense. He said that "defence co-ordination has been continuing in an intensified manner with the Gulf Co-operation Council states to confront any aggression on any member-country."

Arab foreign ministers, meeting in Tunis, called on the United Nations Security Council to take "firm and clear" action to put an end to the widening crisis and compel Iran to abide by previous UN calls for peace.

Prince Saud al Feisal, Saudi Foreign Minister, told the meeting that developments in the war "demand immediate action with adequate and necessary means because it is no longer possible to remain a spectator."

Syria and Libya both dissented from the resolution condemning Iranian agression, however.

Good tidings for Iraq came from one unlikely quarter. In Jerusalem, an official spokesman said that Israel had given the U.S. a guarantee that it would not attack the oil pipeline which Iraq plans to build to the Jordanian port of Aqaba.

Meanwhile, with shipping traffic said to be reduced throughout the Gulf, several of the region's oil buyers were reported to be pressing some producer states for discounts on their oil purchases to take account of the new insurance premiums.

Japanese buyers are believed to be putting pressure on Kuwait, and there are unconfirmed reports that two customers, the national petroleum companies of Korea and Taiwan, are deferring a portion of their liftings.

Test for Arab fundamentalists, Page 4; Shipowners' fears, Page 7

CONTENTS

OVERSEAS NEWS

Death toll mounts to 84 in Maharashtra

BY IAN HARGREAVES IN BOMBAY AND JOHN ELLIOTT IN NEW DELHI

POLICE opened fire on rioting crowds in seven areas of Bombay yesterday as a renewed wave of sectarian violence struck the financial and business centre of India.

Mrs Indira Gandhi, the Indian Prime Minister, is visiting the area for two hours this morning, when she will make an aerial survey from a helicopter, then meet a peace committee and Government officials.

At least 84 people are known to have died in sectarian rioting which began on Thursday in the textile town of Bhiwandi, 25 miles from Bombay.

As the army moved into Bhiwandi, the violence spread into the heart of Bombay itself. Ten people, including one police officer, were killed and a curfew declared over large areas of the city.

According to yesterday's Times of India Bombay was shivering with fear and anxiety "the like of which has not been witnessed since independence."

The origin of the trouble blends elements of farce and tragedy which have become familiar in other areas of sectarian strife in a sub-continent which is still struggling to find a coherent identity.

It began with an anti-Islamic speech, whose precise contents no one now appears to know, by Mr Bal Thackeray, a former cartoonist turned politician who heads a predominantly Hindu organisation called Shiv Sena. This group, named after a local king who did battle with both the Moguls and the British, mobilises around the slogan "Maharashtra for the Maharashtrans." Maharashtra is the state in which the seven linked islands of Bombay are set.

Unfortunately, Maharashtrans comprise no more than 40 per cent of Bombay's 8m inhabitants. The conflict was compounded when a member of the state parliament, a Maharashtran but also a Moslem, got involved in a protest march during which Mr Thackeray's portrait was seen with a garland of chappals (leather sandals).

This peculiarly Indian version of putting the boot in prompted Shiv Sena to declare a "bandh"—when shopkeepers are supposed to roll down their shutters in non-violent protest. But then Shiv Sena "goondas" (thugs) moved in to persuade reluctant shopkeepers, rival partisan flags were flown and stones and soda bottles started to fly. Within hours, the normally unarmed police had opened fire, lorries were burning, and much of the city had become a no-go area.

Although events in Bhiwandi have been far more horrific—27 people were doused in kerosene and roasted alive on Saturday — it has been the threat of violence engulfing India's richest city which has alarmed politicians and community leaders.

By Saturday afternoon, as offices and shops even in the smartest districts closed early to allow employees to reach home before nightfall, it was widely believed that Bombay would undergo its first city-wide curfew for many years.

By yesterday morning, both roads were open and the scene outside the central Bombay mosque where the worst trouble began had been restored to a smouldering calm.

But the uneasy calm was broken later in the day as police opened fire on rioting crowds in seven areas of the city. There were also reports of violence in the Maharashtran town of Thane.

Heavy turnout in Indian state assembly elections

BY D. P. KUMAR IN NEW DELHI

The Prime Minister, Mrs Indira Gandhi, faced a test of her popularity as some 23 constituencies across the length and breadth of India go to the polls this weekend in by-elections for 14 State assemblies.

Heavy polling with turnouts of between 60 and 75 per cent was reported from many areas. The polling was generally peaceful, apart from some incidents in West Bengal and Andhra Pradesh.

The polling is spread over the State of Kerala and Tamil Nadu in the south to Bengal in the East, where Mrs Gandhi's ruling Congress (I) is traditionally weak, to Hindi-speaking Uttar Pradesh in the north and Madhya Pradesh in central India which are her strongholds.

The State assembly elections are being regarded as a dress rehearsal for the general election to the Lok Sabha or lower house of Parliament in January, when the five-year term of the present House will be over.

The stakes are high for all the political parties, some of which have combined to put up joint candidates against the ruling party.

An important battle will be fought in the Malihabad constituency of Uttar Pradesh, where the Congress (I) candidate is pitted against a Sanjay Manch nominee put up by the Prime Minister's estranged daughter-in-law, Mrs Maneka Gandhi. In December Mrs Maneka Gandhi's party wrested an Uttar Pradesh seat from Congress (I) for which the Prime Minister has not forgiven the constituency.

Pledge on Philippine crisis plan

By Emilia Tagaza and Chris Sherwell in Manila

PHILIPPINE President Ferdinand Marcos, claiming a popular mandate for his party in last week's parliamentary elections, said yesterday that he assumed full responsibility for measures to tackle the country's economic crisis and warned of more austerity moves to come.

In a nationwide live telecast, Mr Marcos admitted last week's increase in prices of petroleum products was a "politically unpalatable" move after the elections, but was essential to reduce the risk of economic dislocation. He said the 6-10 per cent increases were intended to dampen demand for oil in order to reduce the import bill and counter the foreign exchange crisis.

"The Government must sometimes tell the people what must be done, assume the odious burden and accept the unpalatability of the measures," he said. Hinting at further austerity measures, Mr Marcos said the Government had to absorb much of the liquidity that has pushed up the inflation rate now estimated at above 40 per cent.

Control of liquidity and domestic credit are among the major conditions attached to a SDR 615m standby credit from the International Monetary Fund (IMF)

Israel resumes bombing raids in Bekaa Valley

BY OUR TEL AVIV CORRESPONDENT

ISRAELI WARPLANES yesterday resumed bombing raids over Lebanon after a six-week lull, striking at targets only a few miles from the Lebanese-Syrian border. A military spokesman said the attacks were aimed at a camp used by Iranian-backed guerrillas in the hill village of Janta in the Syrian-controlled Bekaa Valley.

However, Beirut's Christian "Voice of Lebanon" radio station said one target was a base defended by Soviet SAM ground to air missiles. Only the Syrians are believed to be equipped with the missiles.

The radio said ambulances rushed casualties to hospitals in Baalbeck and said that there had been at least one death, and one injured. It said that flames could be seen rising from the village of Deir Al Ghazal all the way to Yanta, about 15 kilometres east of the town of Zahle.

The Israelis claimed that their planes scored accurate hits on buildings in the Janta guerrilla camp which they said was being used as a training base and a launching pad for attacks on Israeli units.

Israel has charged that Shi'ite Muslim guerrillas carried out last November's devastating car bomb attack that killed 61 people at an Israeli base in South Lebanon, and has since repeatedly struck at the guerrilla camps.

During the past month or so, Israel has appeared anxious not to fuel tension with Syria, which has repeatedly alleged that the Israelis are preparing for war.

The last raid was on April 7, when the air force bombed Palestinian targets in retaliation for a gun and grenade attack in central Jerusalem which left one Israeli civilian dead and 47 wounded.

Reports reached Beirut last week that Iranian revolutionary guards had left the Bekaa under Syrian pressure. Some residents confirmed that the Iranians were no longer there. However, Mr Hussein Musavi, the leader of Islamic Amal, a radical breakaway faction from the mainstream Shi-ite Amal group with strong links to Tehran, denied the reports.

LEBANON'S new cabinet approved a draft policy statement during a weekend session held in the scenic summer residence of President Amin Gemayel, in Bickfaya, but little was revealed about its content, writes Nora Boustany from Beirut.

Most Lebanese remained sceptical about any firm solutions to the country's problems, as the airport remained closed and only one crossing was accessible between mainly Moslem west and Christian east Beirut.

Party names next Taiwan premier

By Robert King in Taipei

TAIWAN'S Nationalist Party has named veteran economist Yu Kuo-Hwa as Prime Minister. He succeeds Sun Yun-Suan, who suffered a serious stroke three months ago.

The appointment came hours after President Chiang Ching-Kuo, son of former President Chiang Kai-Shek, was sworn in for a second six-year term.

Yu's appointment is likely to be approved by the legislature later this week.

The appointment virtually assures that Taiwan will continue on its present course of building up its economy. Yu, a graduate of the London School of Economics, has served as chairman of the central bank since 1969 and has been chairman of the Council for Economic planning for six years. He was once Finance Minister and has played key roles in international financial institutions such as the IMF

Yu is known for his conservative economic and financial policies and is credited with much of the Government's success in lowering the inflation rate

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OVERSEAS NEWS

West German car production losing momentum

BY JOHN DAVIES IN FRANKFURT

WEST GERMAN motor vehicle production, now being disrupted by the country's worst labour conflict since 1978, has already been losing some of its momentum in recent months.

The Automobile Industry Association (VDA) says that vehicle output has been slipping back, once adjusted for seasonal factors, since January.

Production of cars and commercial vehicles last month, hit as usual by public holidays, fell to 347,500, compared with 405,000 in March.

Output was also well down on April last year, when nearly 359,000, vehicles came off the assembly lines. It is the first time this year that vehicle production has fallen significantly below output in the corresponding month last year.

West German factories produced 23,500 trucks and other commercial vehicles last month, still a relatively low level but little changed on the previous month or on April last year.

The assembly lines turned out 324,000 cars, 57,000 fewer than in the previous month and nearly 12,000 fewer than in April 1983.

Despite signs of slackening momentum, West German vehicle production in the first four months of this year at 1.55m is 9 per cent ahead of a year earlier. Production early last year was still at a low level, with the industry just beginning to reap the benefits of a revival of sales in West Germany and with sales in some export markets still restrained.

One of the motor industry's worries this year has been the trend of car sales in West Germany in the last few months.

In March the number of newly registered cars was 7.1 per cent below a year earlier.

The VDA says that car sales showed a slight recovery on the domestic market last month, although they were still lower than last year. On the other hand, export demand for cars remained strong, but truck exports were still unsatisfactory.

Output at Citroën plant likely to resume today

BY DAVID MARSH IN PARIS

PRODUCTION is expected to resume today and tomorrow at four Citroën car plants around Paris following a decision by workers at the weekend to call off occupation of the factories which halted output last week.

The decision, annouced by the Communist-led CGT trade union after workers at the Aulnay plant north of Paris on Saturday voted to suspend their action, followed a conciliation move on Friday by M Pierre Beregovoy, the Social Affairs Minister.

M Beregovoy turned down the bid by Citroën, part of the loss-ridden private sector Peugeot car group, to sack 2,000 workers as part of its plan to reduce the company's employees by 6,000 this year.

By allowing Citroën to proceed with 4,000 job cuts through early retirements and other more socially acceptable measures, M Beregovoy hopes to win support of both the company and the unions for lower working hours at the plants in order to cut Citroën's labour surplus.

The Government is also trying to persuade more immigrant workers – primarily from North Africa – to accept cash incentives to return to their countries.

M Pierre Mauroy, the Prime Minister, is due to meet M Jacques Calvet, the chairman of Peugeot's operating divisions, today to discuss a permanent solution to the Citroën conflict. The Government, unions and management wish to avoid the violence at the Poissy plant west of Paris which marred a similar dispute over workforce cuts at Peugeot's Talbot subsidiary.

Workers at the four plants – at Aulnay, Levallois, Asnières and Nanterre – left the factories peacefully at the weekend.

M Beregovoy stressed that his objective was "to limit the number of sackings" – an indication that the company's plans for outright redundancies has not been rejected

More Soviet submarines stationed off U.S. coast

MARSHAL DMITRY USTINOV, the Soviet defence minister, yesterday said that Moscow had stationed more submarines off the U.S. coast. He warned that the number of missiles on Soviet soil and in East Europe would be increased each time cruise and Pershing rockets were deployed in the West, Agencies report.

In an interview with Tass, the official Soviet news agency, Marshal Ustinov said the Soviet union could deliver a nuclear strike on U.S. targets in less than 10 minutes.

He said that President Reagan's policy of strength over Moscow would never wring concessions from the Kremlin and made arms control talks "impossible."

Soviet President Konstantin Chernenko called for talks to start on a ban on space wagons in a letter to a group of U.S. scientists published today.

Lisbon food prices up

THE PORTUGUESE Government increased bread and milk prices by between 18 and 20 per cent over the weekend, further toughening an austerity drive aimed at curbing massive public deficits. Peter Wise reports from Lisbon.

Sr Alvaro Barreto, the trade minister, said the increases were made to offset a 35 per cent depreciation of the escudo against the dollar since last July.

Brandt re-elected

Former Chancellor Willy Brandt was re-elected yesterday as the chairman of the West German opposition Social Democratic Party, Reuter reports from Essen.

Herr Brandt, 70, was re-elected by a vote of 391-19 at a party congress in Essen.

China plans oil growth

CHINA PLANS OIL GROWTH China plans to produce some 110m tonnes of crude oil this year and increase output for the next six years by more than 5 per cent, the China Daily said yesterday, Reuter reports from Peking.

It quoted Tang Ke, the oil minister, telling industry leaders that this depended on the doubling of proven onshore oil deposits. He said China would welcome foreign technical aid in this exploration.

ISABELITA FLIES IN FOR TALKS WITH ALFONSIN

Argentina searches for consensus

BY JIMMY BURNS IN BUENOS AIRES

THE LEADER of Argentina's opposition Peronist Party, Sra Maria Estella "Isabelita" Peron, arrived from Spain yesterday to head a round of talks with President Raul Alfonsin, aimed at achieving a broad national consensus on key economic and political issues.

The talks, to begin today, will be principally aimed at forging a common domestic front on the debt question. Government officials have indicated that they would like to see the Peronists publicly endorse the prospect of accepting one of two basic alternatives.

These would be either an agreement with the IMF before the end of the month on the condition that this does not imply a retrenchment of the economy; or an attempt to pursue a more flexible response in direct negotiations with commercial banks afteb the break-off of talks with the Fund, backed up by an implicit threat of a formal repudiation of the debt if no compromise is reached.

Sra Peron has kept a discreet distance from Argentina politics ever since she was first exiled to Spain by the former military regime in 1981 — with the exception of a brief visit to Argentina last December.

But her political star has been rising again in recent weeks as a potentially crucial bridgehead between the Government and the disparate opposition forces. In recent weeks the Peronists have been using their majority in the Upper House of Senate and their domination of labout to obstruct Government policy.

Sr Alfonsin is banking on Sra Peron having retained her influence on the party as its titular head and as the fount of the Peron mystique. She was the third wife and only surviving heir of the party's charismatic founder, the late General Peron, who died in 1974.

Sra Peron has made no detailed statement about her political intentions, although she has broadly indicated her willingness to collaborate with Sr Alfonsin in helping to consolidate democracy.

Sra Peron has apparently overcome her reluctance to abandon her comfortable existence in Madrid followin the approval of a parliamentary motion on Friday exonerati■: her from any further judicial proceedings linking her to the Triple A, an outlawed Right-wing terrorist organisation, and misappropriation of public funds, during her short-lived presidency (1974-1976).

Euro-Parliament in final session

John Wyles reports on the MEPs' run up to their second direct elections to be held next month

THE FINAL session of the first directly-elected European Parliament opens in Strasbourg today under the long shadow of next month's polls and with many of its members understandably anxious to make a late grab for public attention.

President Mitterrand of France will guarantee one spotlight on Thursday by delivering a report on the state of the EEC to be broadcast live by a French television station. West German television will dutifully satisfy a thirst for attention among German members by covering some debates live earlier in the week.

On past performance, the debates may prove rather less exciting than Bad Homburg on a wet Sunday afternoon, but the week's agenda offers a wealth of opportunities for members to demonstrate their abiding concern for social groups and issues both large and small.

As they wade through 70 reports and related resolutions, MEPs will be considering whether or not there should be a code of conduct to regulate the "Moonies" and other religous groups, how to combat video nasties

These serve to demonstrate once again that the 434 members of the Parliament have consistently refused to confine their interests to the policies covered by the Treaty of Rome. They will turn to those rather more mundane topics at question time to the European Commission on Thursday when they will be pressing for information on everything from the Commission's financial policy to aid to growers of cut roses and carnations, pausing on the way to delve into the desulphurisation of coal at the Brindisi South power station.

This is the very stuff of representational politics which most members have come to recognise as the core of their job and which the 306 at least who are standing again hope will secure re-election.

Nevertheless, the Community's routine crises will not go untreated. The Parliament numbers among its slender powers a measure of control over EEC spending and this week it is likely to tell the Commission to bury its proposal to borrow 2.33bn European currency units (£1.36bn) from member governments to balance the 1984 budget.

It may, however, leave the task of suggesting alternative solutions to its successor which will meet in Strasbourg for the first time on July 24.

Not many familiar personalities will be missing from that occasion because the Parliament has somehow failed to establish household names in Europe. However, within the Parliament reputations have been established, and among the members not standing again Herr Erwin Lange, the Christian Democrat chairman of the budget committee, will be prominently missed.

The British Conservatives will be saying farewell to 12 of their number including young political tyros like Robert Jackson, John Taylor and Eric Forth, who have also been sitting at Westminster since last June. No fewer than four of the five departing members of the Labour Group have found similar refuge in the Commons —most recently Mrs Ann Clwyd who became the member for Cynon Valley on May 3.

It is doubtful if any of those who are leaving have had the appetite or the stamina to read every one of the 1,100 plus reports produced by this Parliament nor the diligence to vote on all the 2,000 or so resolutions adopted.

Many members remain convinced that the Parliament did not need all of the £630m it has taken out of the EEC budget since 1978 and they, and their political parties, have sometimes struggled to spend the £24.6m allocated for the coming elections.

OVERSEAS NEWS

Gulf fundamentalists challenged by Arab Nationalist Movement

BY KATHLEEN EVANS, RECENTLY IN KUWAIT

THE ISLAMIC fundamentalists are facing the first challenge to their growing support in the Gulf region. The old left-wing Arab Nationalist Movement born in the mid-1950s is being nurtured back to life in Kuwait, and liberals are adding their voice to the debate over the Islamic laws which Gulf states are introducing to ward off pressure from the fundamentalists.

In Kuwait, which has a relatively free press and an assembly – the next election is due in eight months – the fundamentalists have come in for a hesitant but growing amount of public criticism from those opposed to changes in the country's social, economic and legal fabric.

An interview given to a local newspaper by Mr Ibrahim Shatti, director of the Kuwaiti Emir's office, in which he said that the fundamentalist groups were acting like de facto political parties sparked calls for the introduction of a party system.

Supporters of the parties ideas say that it is a necessary step towards political maturity in a parliamentary democracy. Among those who have taken up the cause is the chairman of the local lawyer's union, the head of the national news agency, senior government bureaucrats and other leading academic and political figures.

They believe that it is better for the various ideological groups to be publicly known and judged on their policies, rather than allowing the semi-clandestine parties to continue. Leaders of the Islamic groups have vigorously opposed the suggestion on the grounds that it would lead to the return of the Arab Nationalist Movement, which they view as atheist as well as socialist.

Officially, political parties or groups are not allowed in Kuwait. In practice there are identifiable groupings within the national assembly, and behind the numerous cultural and professional associations in the country.

Kuwait's 50-member parliament consists largely of independents, many of them tribal representatives, but there is also a highly vocal Islamic block. The fundamentalists have seven members of parliament in the assembly in various guises, ranging from Sunni supporters of the Moslem Brotherhood movement, to Shi'ite radicals to the Salafayin, fundamentalists genuinely loyal – unlike some – to traditional forms of rule in the region.

The fundamentalists also have bases of support in certain government ministries and institutions, and in the last 12 months have demonstrated their muscle on numerous occasions to the growing unease of the Government. Last year, they managed to secure parliamentary approval for a ban on alcohol supplies to foreign embassies, a move which was opposed by the Government. They are now engaged on a campaign to change the constitution, to introduce an Islamic Sharia legal system.

The move is said to have alarmed ruling circles in Kuwait, for the country has a long tradition of liberalism in criminal judgments and personal matters. Although the legislation was approved by the assembly, the Emir is said to be reluctant to sign it.

Battle lines were drawn between the fundamentalists and the Arab nationalists with the unexpected appearance on television of a leading nationalist, Dr Ahmed Khatieb. For years Dr Khatieb has been viewed as a shadowy opposition figure with radical credentials stretching back to the early days of the pan-Arab Nationalist Movement. Although parts of the television debate were censored, (but later reports in full by the local press), Dr Khatieb was given the opportunity to deny that he was a communist, and to outline modest-sounding ideas.

Undoubtedly, the ruling family is against any move which might lead to the establishment of party rule. A Sabah family member said that such a move would prove divisive at a time when tension is high because of the Iran-Iraq war.

There are also fears that foreign powers might manipulate political parties. "Parties are not necessary in Kuwait, because the groups are known to the voters," said the official. Party rule would also emphasise the differences between Sunni and Shia Moslems, he added.

More cynical observers detect the subtle hand of the Sabah family in the growing debate however. One said: "They are bringing out the Arab nationalists to show the fundamentalists the big guns they can bring into play if the Islamic group get any more embarrassing. The Sabahs are master artists in flexibility."

Once started, the debate may prove difficult to stop, particularly as the election draws nearer. The Arab nationalists are relishing the opportunity to fight the growing influence of the Islamic groups, and say they intend to field some five to 10 candidates.

"We need a breakthrough," said Dr Abdullah Nibari, one of the movement's leading spokesmen. He conceded that the movement has been marked by continuous failures in the face of Israel but he believes it has gained greater consolidation and maturity as a result.

The movement's supporters in Kuwait would not like to see it being "brushed up" by the Government as a tool against the Islamic groups he said, however. They want to demonstrate that they are the true opposition, and believe the fundamentalists are inherently loyal to the Government.

Kuwait's forthcoming election will take place only two months after a planned summit meeting of the Gulf Co-operation Council, and the sight of fundamentalists fighting it out at the ballot box with Arab nationalists will highlight the lack of democracy in other Gulf states. Even more embarrassing is the likelihood that Kuwaiti women will step up their campaign for the right to vote in the next few months.

World Bank tells India to raise efficiency

BY JOHN ELLIOTT IN NEW DELHI

INDIA has been told by the World Bank that it should concentrate its future major investments on improving the performance of its outdated and inefficient industries rather than indulging in expensive new ventures.

This is the main message of the World Bank's annual report on India, which has been circulated privately to government ministers and to foreign countries involved in next month's meeting of aid donors.

The proposal is broadly in line with policies being developed by India for its seventh five-year plan, which starts next year.

The report implicitly criticises India for its political, technical or bureaucratic impediments "which delay and block efficient industrial and other development.

"The poor growth performance, high capital output ratios and low capacity utilisation rates for Indian industry are serious problems," says the report, noting that India's industry is thought to have grown at no more that 4.5 per cent in 1983-84.

It says that all sectors, especially aluminium are limited by infrastructure bottlenecks and that many industries including steel need low-cost balancing investment to improve efficiency. Production costs and quality need improvement through modernisation in jute, textiles, cement and fertilisers.

Protectionist and bureaucratic policies – including price controls – which "no longer serve well their original objectives and have adversely affected incentives for more efficient capacity utilisation and more investment" should be abandoned.

Although the Government is unlikely to move far on such major policy issues in advance of the general election, due by next January, it is in agreement with detailed investment proposals.

"An appropriately-balanced investment programme, improved management and well formulated pricing policies would raise production efficiency and generate much higher profits," says the report on the public sector which accounts for nearly half the country's investment.

TECHNOLOGY

EDITED BY ALAN CANE

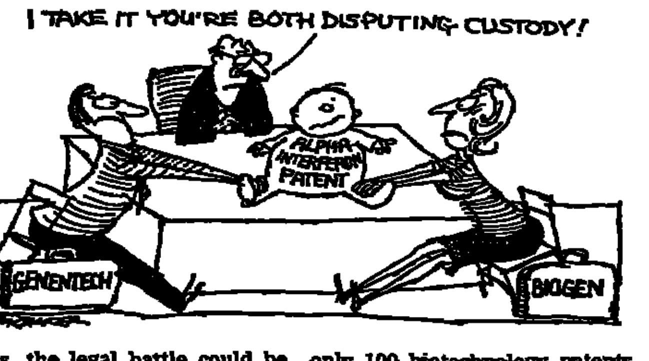
PATENT ROW SIGNALS START OF GUERRILLA WAR IN BIOTECHNOLOGY

Who owns a newly minted gene?

BY STEPHANIE YANCHINSKI

A PATENT row between two well-established biotechnology companies is signalling the beginning of a guerrilla war over who owns biotechnology inventions, and the 1m dollar spoils that go with them.

Genentech, a leading American genetic engineering firm, and Biogen, a European equivalent, are at loggerheads over who owns the fundamental patent for alpha interferon. This is the best known of a family of natural antiviral substances once touted as magic bullets for curing cancer.



Biogen claims that its product patent, recently granted by the European Patent Office, covers all alpha interferons made by the new techniques of gene splicing, and gives Schering Plough, its marketing partner, the exclusive right to sell alpha interferon in Europe.

This effectively shuts Hoffmann La Roche, Genentech's main backer, out of alpha interferon in Europe. As a result, Roche has just issued a challenge through European Patent Office channels, based on a belief that Biogen's patent is too broad, and does not cover the new types of interferon manufactured today.

Interferon, discovered by Dr Alick Isaacs and Dr Jean Lindenmann in a British laboratory over 25 years ago, is a class of proteins produced by the body in minute quantities to combat viral infections and maybe even cancer. Since Isaacs' time many have been discovered but until genetic engineering provided larger quantities for study, their precise role was unclear.

Now it seems interferon acts chiefly by enhancing the body's own defences against disease. Both Schering Plough and Hoffmann La Roche have sunk millions of dollars into producing interferons by genetic engineering in the hopes of coming up with a new range of extremely powerful new drugs.

The basis of Genentech's challenge lies in the chemistry of the substance which Biogen claims to have manufactured in its patent. Tom Kiley, Genentech's patent lawyer, says that Biogen's patent — filed some years ago, covers only a precursor type of interferon, one carrying an extra 23 amino acid building blocks which the material currently being produced and tested does not have.

Whether Schering Plough or Hoffmann La Roche wins or loses, the legal battle could be protracted and costly, for at stake is the first big money making product from biotechnology. A spokesman for Biogen *estimates that the* market for alpha interferon for certain cancers and viral infections could be worth hundreds of millions of dollars. He adds: "It is important to be the first with a unique product. The second on the market has to have unique properties to convince people to buy it."

Interferon is particularly important to Biogen's future, as it is nearest development and approval for human use. Despite some disappointing results, Biogen still claims its alpha interferon, Intron, will be the drug chosen to treat some cancers because it has fewer side effects than existing anti-cancer drugs.

The cancer chemotherapy market in the U.S. and Europe alone is $10bn a year.

However, there are powerful implications in patent battles such as these. Today, many of the money-spinning antibiotics, among the financial mainstays of the pharmaceutical industry, are coming to the end of their patent life, and drug companies are looking for new drugs to take their place.

In the U.S. this is happening at a time when the pharmaceutical industry's three year campaign to have the life of a patent extended has hit roadblocks. Now, an average of 10.2 years of the statutory 17 year patent life is eaten up by the extensive regulatory review required to obtain approval.

The current spat between Genentech and Biogen is symptomatic of the confusion that exists in trying to protect inventions in biotechnology. The U.S. patent office has issued only 100 biotechnology patents, but is considering more than 1,000 applications.

"The situation is so uncertain," says one ICI scientist, "that companies are patenting anything, and some are really dubious." Bruce Collins, a partner in an East Coast American patent firm and a long time observer of the biotechnology scene says: "Whether to choose to patent or to rely instead on trade secrets depends on the phase of the moon. There are so many variables."

Many such experts believe that a lot of the early patents protecting fundamental genetic engineering processes were filed by the emerging biotechnology companies largely to impress backers and will not hold up under challenge.

In biotechnology, says one expert, there is no case history. Many of these issues will be decided in the courts, particularly in the U.S., for not only are the Americans at the very forefront of the technology but the country is the most litigious in the world. Bernard Bate, head of the heavy chemicals patent unit in ICI chemical division, says: "Genetic engineering is very new, and the operating rules for granting patents are laid down in the barest outline.

"Also, patent officers are inexperienced, so it is likely that the rules and practices will be refined in case law. This will become of the utmost importance when the biotechnology industry begins to sell products," which is just beginning to happen.

This confusion *does not* encourage the more conservative companies who are waiting to see the outcome of many of these cases to decide how much to invest in biotechnology. "The strength of biotechnology patents will help us decide how much to invest in biotechnology in the future," says a top policy maker of the head of the Swiss firm, Sandoz.

Patrick Crawley, who handles the patent affairs at Celltech, Britain's premier genetic engineering company, admits that for *emerging companies such as his* own strong patents are essential for another reason. "We are an R & D company seeking contract research often involving American companies. Strong patents make us appear more attractive and offer an insurance policy."

Dr Charles Weissmann, leader of the Biogen research team which produced leucocyte interferon using recombinant DNA techniques

Biotecchnology is about using plant or animal cells to perform a variety of industrial tasks, from manufacturing valuable drugs to mining for copper. For many years antibiotics have been produced by microbes in fermenters using many of the same techniques. It is the advent of genetic engineering whereby the very essence of genetic inheritance of the cell doing the work can be altered at will that has produced the confusing spate of new patents.

Most of the early biotechnology patents will probably be indefensible because they protected generic processes, not products. *Dr Jim Coombs,* in charge of patenting chemicals and diagnostic patents in Hoechst UK says that "products are unambiguous while it may be possible to use a slightly different process to make the same product without infringement."

Michael Jackson, the patent expert at Wellcome Biotechnology Inc, says antibiotic manufacturers such as his own company prefer to protect products. A process patent usually requires that a sample of the cell line be deposited in some central bank for examination by the patent authorities, so secrecy is lost.

Billion dollar patent

THE U.S. Patent Office is probably about to grant one of the most fundamental patents in biotechnology which could be worth hundreds of millions of dollars.

The patent covers products made by the basic genetic engineering technique invented by Stanley Cohen and Herbert Boyer which now forms one of the pillars of *the biotechnology industry.* The patent could be worth as much as $1,000m in licence royalties before the patent runs out in 17 years.

Arguments concerning co-authorship, and even whether what the process described in the patent was accurate in the light of present-day knowledge. The patent was filed in 1974. However, what remains to be resolved is whether the Cohen Boyer patent covers higher forms of cellular life, taken from animal tissue, say, as well as the simpler bacteria.

Some experts think that animal cells may be better than bacteria, for the production of sophisticated pharmaceuticals, as they produce a substance identical, not just near to, the natural molecule. *Such cultures could be worth* millions. Bertram Rowland, the private attorney from Townsend and Townsend, says "We will be looking at the law very carefully, but we think the language in the application is sufficient to cover the more complicated Eukaryotic cells. In any case our policy is to keep on refiling the patent until we get it."

OPTO-ELECTRONICS

Midwinter joins optic fibre academics

By DAVID FISHLOCK

A SENIOR British Telecom research manager is moving to London this summer, to join one of Britain's strongest university departments in opto-electronics Dr John Midwinter, 46, who is *managing about 100 graduates* working on optical fibre technology at BT's laboratories at Martlesham, has been elected to the new British Telecom chair in opto-electronics at University College, as the fourth professor in the department.

For Professor Eric Ash, head of the department of electronic and electrical engineering, the appointment is a personal coup. Prof Ash sees BT's optical fibres project as "one of the success stories of the UK." Its achievements are a match for any opto-electronics team in the world, he says.

The field of optical fibres has been a speciality of Dr Midminter since he returned from the U.S. in 1971 to join the Post Office Research Station at a time when the Martlesham laboratories were "just a hole in the ground." He has been running his present team—50 graduates on fibre optics and 50 more on associated projects—for seven years. For the past two he has been special head of *division, equivalent to a deputy* research director.

"But for the past two years I've had the growing feeling that I ought to be doing something else." He finds no time for research of his own—"one is really a personnel manager."

Of BT's senior research staff, "I reckon I'm one of the more academic," he says. He already holds visiting professorships at Queen Mary College and Southampton University, and admits that "I'd flirted with the idea of moving to a university one day."

He says he'll be leaving "the most soundly based project in the place," but joining a department which has made its name "using opto-electronic devices to do novel things. And that's my interest too."

One of those novelties, exhibited by Prof Ash at the Royal Society's soiré last week, is an integrated acousto-optic spectrum analyser. The idea is to try to bring all the components shown in the accompanying sketch together into a single integrated opto-electronic circuit.

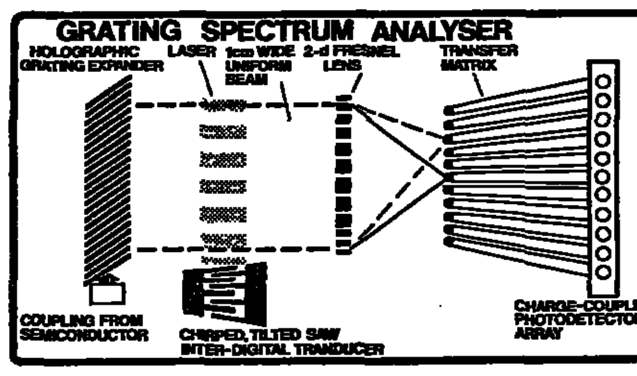
The project is being funded by the Science and Engineering Research Council and the Admiralty Research Establishment of the Ministry of Defence.

The light path is through a thin surface film formed by diffusing titanium into a crystal of lithium niobate. The crystal itself is piezo-electric, and is shown in the sketch in the plane of the page. When the light beam interacts with an acoustic wave, the light is diffracted at an angle proportional to the acoustic frequency.

The acoustic transducer in this case is a thin metal film. The collimation lens is a holographic sub-micron period grating etched into the surface of the light guide. It is shaped to behave as a reflector, broadening the beam from a gas laser.

The laser and photo-detector array are separate components which the researchers plan to butt-couple to their circuit.

All the thin film components have been made and tested as individual structures. Current research at University College aims to integrate them all into a single section.



Datacomms

Scicon puts it all together

THE PROBLEMS of connecting terminals, micros and peripherals from different manufacturers are tackled head-on by a communications processor called Netway, made by Tri-Data in California and available in the UK from Scicon.

Instead of deploying separate communications devices such as protocol converters, data concentrators, cluster controllers, packet processors and nodal processors, Netway combines all these functions in a single unit.

Scicon says that this device can connect virtually any type of micro, terminal, word processor or local area network with host computers from IBM, ICL, DEC and Burroughs. Subsequent expansion by adding further dissimilar equipment to the network is accommodated by software upgrading in the Netway processor.

By eliminating the addition of various types of extra communications hardware, Netway avoids the need to deal with different technologies, suppliers, operating techniques and support arrangements.

Scicon claims that this is the first product that makes it both practical and economical to build networks out of dissimilar hosts and workstations. More on 01-580 5599.

Construction

Pipework

NKK OF Japan has developed a steel pipe with inner spiral ribs for use where there is danger of earthquakes.

The firm says the pipe has been developed to meet the new demand for concrete-filled composite pipe piles and columns — the inner rib structure promotes the bonding of concrete to the steel pipe. NKK has offices in London's Moorfields High Walk.

IT ALSO SHOWS THE MONZA IS AHEAD OF OTHER LUXURY COUPÉS.

You're sitting in the driving seat of the new Monza GSE.

In front of you, the LCD instrumentation presents all the data in graphic detail.

Alongside it you'll find a trip computer with 7 functions. (One of them even reports on the outside air temperature.)

But these are by no means the only indicators of this car's performance.

You'll notice the Recaro seats, which adjust to fit your thighs. And the tiltable, leather-bound steering wheel, complete with power steering.

Turn the ignition key and you unlock an impatient 3 litre, 180 bhp, fuel-injected engine.

Foot down, and 60 mph is just 8.2 seconds away.

But beware, the Monza will surge on to over 132 mph.

Swing it through some curves and you'll get instant feedback from the all-independent suspension with front MacPherson struts and gas-filled dampers.

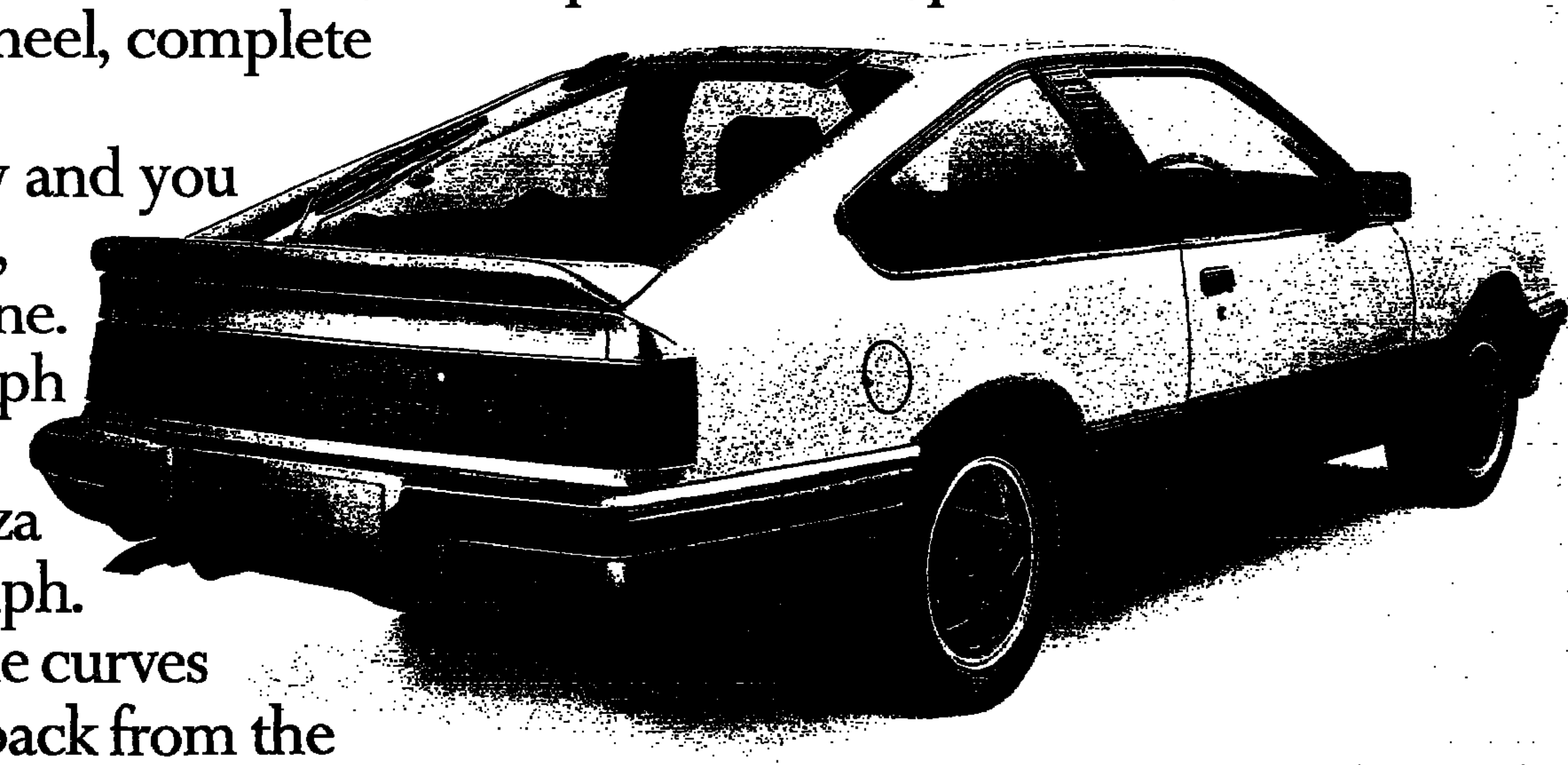
Also the limited slip differential improves traction, particularly in poor conditions.

Indeed 'Motor' magazine likened the effect to that of four-wheel drive.

At speed, you'll soon appreciate the aerodynamic properties of the front and rear spoilers and the sill extensions.

And at rest, they do nothing to hide the car's potential.

Clearly it's a car that sets the pace. Except in one area, price. £13,801.



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WORLD TRADE NEWS

SHIPPING REPORT

Frightened owners stay away from Gulf

By Andrew Fisher, Shipping Correspondent

BUSINESS IN the Gulf tanker market was virtually at a standstill last week as owners and brokers assessed the consequences of the attacks on merchant shipping by Iran.

Owners were unwilling to risk their ships in the Gulf, though some were reportedly ready to do so at rates at least double those before the attack on the Yanbu Pride tanker near the Saudi port of Ras Tanura.

This would lead to rates from Kharg Island in Iran to Rotterdam of around Worldscale 60, equivalent to more than $5m. Hull and cargo insurance rates for the area have also been increased considerably, adding to owners' costs.

Some brokers clearly resented the intrusion of the Gulf war into the shipping market. "Once again," said an indignant Galbraith's in its weekly report, "the ugly face of politics has reared itself." It wrote resentfully of "free unarmed market tonnage being attacked by warplanes and missiles."

This, it added, "is intruding badly into the activities of the tanker market." Charterers were now finding it hard to attract offers from Kharg Island and Kuwait, irrespective of money.

Major oil companies said they were keeping a close eye on the situation. Mobil of the U.S. said it decided earlier this month to send no ships North of Ras Tanura.

Among the independent owners, Bergesen of Norway said it was staying out of the Gulf for the moment. Sweden's Salen Tankers hoped the situation would calm down, and declined to comment on its policy.

Other Norwegian owners decided to do the same as Bergesen, sending no further ships to the Gulf. The 13 Norwegian vessels already there would leave as soon as possible, the Norwegian Shipowners' association said.

The first signs of life in the tanker market after the Yanbu Pride attack came late on Thursday afternoon when Kuwait Petroleum sought a ship for over 250,000 tons of crude oil for East or West destinations.

W. German machine tool makers face export threat

By John Davies in Frankfurt

WEST GERMAN machine tool makers could face stronger competition from Japanese exports in Eastern Europe, according to a study commissioned by the West German manufacturers.

The Comecon countries at present take about 20 per cent of West Germany's machine tool exports, but by concentrating on advanced machine tools, the Japanese have made inroads in Germany's share of the U.S., Asian and Western European markets.

Germany is the third largest producer of machine tools after Japan and the Soviet Union and the top exporter, selling about 60 per cent of production abroad.

World recession and the recent fall in industrial investment have caused the value of German machine tool production to fall from DM 10.2bn (£2.6bn) in 1981 to DM 9.4bn last year and little change in real terms is expected this year.

In the first quarter however, orders were running 25.8 per cent ahead of a year earlier with those from within West Germany 33 per cent up, and export orders up nearly 20 per cent. This improvement is expected to flow through to better production figures by next year.

The West German manufacturers point to their increasing output of advanced machine tools, their resilience in the face of recession compared with competitors and their strong export effort, to counter criticism.

The study suggests that the biggest skope for future expansion is in the developing countries although they are hampered by debt problems. Western motor vehicle manufacturers and the engineering industry are expected to have only limited growth.

West German machine tool makers can make the most of their strengths by close relationships with innovative and exacting customers, it says. While the West German industry has a considerable disadvantage in labour costs, its workforce is highly skilled. It is vital to reduce the time between product development and its introduction to the market.

Brazil asks for $120m steel plant payment

BY PETER BRUCE

BRAZILIAN steel industry chiefs are trying to persuade Britain's Davy Corporation and merchant bankers Morgan Grenfell to inject a final $120m into the first phase of the unfinished $5.6bn (£4bn) Acominas integrated steel works in Minas Gerais state.

Sr Henrique Brandao Cavalcanti, president of Siderbras, the state-owned steel holding company and Sr Miguel Goncalves de Souza, the new Acominas president, held talks with Davy, Morgan Grenfell and Government officials on Friday. Further talks are planned next month

The Acominas project, built by a consortium of British, West German, Brazilian and French interests led by Davy, is Britain's flagship project in Brazil. A squeeze on investment by Brazil has put the project nearly five years behind schedule.

Sr Cavalcanti said at the weekend however that a $120m injection, on top of the near $5bn spent in the past eight years, would enable at least part of the works to come on stream by next March. Siderbras intends to begin operating a $30m billet mill recently installed by Davy, a blooming mill to feed it, and one battery of coke ovens, supplied by Babcock Woodhall Duckham, a division of Babcock International, to fire ingot reheating furnaces in the blooming mill.

Instead of immediately bringing on stream the $170m blast furnace built by Davy, a $73m sinter plant or a $230m Brazilian-built steel making plant, Acominas is proposing simply to buy in steel ingots from other Siderbras plants. Sr Cavalcanti said bringing all the existing components of phase one into operation would probably cost $250m.

The Brazilian proposals involve reviving a memorandum of understanding agreed in February, 1982, under which Davy was to purchase billets worth $120m which it could then sell on to third parties. The deal was never consummated although a similar $60m pre-sale agreement with Ferrostaal of West Germany did go ahead.

Acominas has already signed one firm three-year billet supply deal with a Brazilian rolling mill from next year and Sr Cavalcanti said negotiations with other customers, outside Brazil, would have to start within two months.

He said the response in London to the proposals had been "quite good." Officials at Davy and Morgan Grenfell were cautious, regarding the talks as exploratory, but it is clear that the Brazilians think the amount of money being sought is relatively insignificant compared with the cost of the project so far and that they would be stung by a refusal to go ahead.

Sr Cavalcanti said that while the British side was under no obligation to enter into the pre-sale agreement, "we have expectations."

The prospect of Siderbras going ahead with phase two of the Acominas project could act as an important incentive to the British side agreeing to the Brazilian proposals. Sr Cavalcanti said plans, worth around $500m, to build a medium section and a heavy section mill could be realised by 1988 if phase one were to come on stream, even partially, by next March.

While the key to the project being completed remains the approval of Sr Antonio Delfim Netto, the powerful Planning Minister, who has been hostile to the project, Sr Cavalcanti said the government had shown new interest in Acominas and that "other options" were available if the current talks fail.

Andrew Whitley adds from Rio de Janeiro: The major British clearing banks most heavily involved in lending to Brazil, Midland and Lloyds Bank International, will probably be prepared to provide fresh funds for Acominas, provided the loans obtained a federal Government guarantee.

One leading British banker in Sao Paulo said last week that these loans could be made out of contributions to the $6.5bn "jumbo" loan provided to Brazil under Phase Two of its external debt refinancing programme.

Feature, Page 19

Nuclear pact signed with China

Brazil and China have reached agreement on nuclear co-operation, which will include joint prospecting for uranium and the construction and operation of nuclear power stations, Andrew Whitley writes from Rio de Janeiro.

A memorandum of understanding is to be signed during President Joao Figueiredo's State visit to China, commencing next Sunday. The Brazilian leader left Rio de Janeiro yesterday, at the start of his Far East tour.

The nuclear pact will be one of the most visible signs of the rapidly expanding relationship between the two countries. While China is becoming an important supplier of crude oil to Brazil, Brazilian steel, wood and sugar are finding markets in the other direction.

Brazilian civil engineering companies have also been invited, together with U.S. and Japanese contractors, to bid for work on a planned 16,000 Mw hydro-electric dam on the Yangtse River. When complete, the project will rank as the world's largest, dwarfing even Brazil's 12,000 Mw Itaipu dam.

Outline agreement on the nuclear pact was reached during preliminary talks in Peking last week with a visiting Brazilian delegation. A statement said the spheres to be covered ranged from pure research to the fabrication of nuclear fuel elements.

Neither country is a signatory to the Nuclear Non-Proliferation Treaty on the grounds that it discriminates unfairly against developing countries.

The Chinese nuclear power industry is primarily based on Soviet-developed technology, while the embryonic Brazilian industry results from a mixture of U.S. and West German assistance.

Tarmac wins Cairo sewage contract

By Charles Richards in Cairo

TARMAC Overseas of the UK, in partnership with the local Arab Contractors (Osman Ahmed Osman and Company) have signed a contract worth E£41m (£36m) with the Cairo wastewater organisation in the first phase of a scheme to rehabilitate Cairo's sewers on the East bank of the Nile.

The contract is the second to be signed in the ambitious E£850m scheme and involves building a 3 km culvert from Al Ameriyya to the urban boundaries.

The rehabilitation project has been held up for many years by bureaucratic delays and legal niggles over the wording of contracts. The signing by GEC of the first contract, worth £11.8m in March, has raised contractors' hopes that a flood of orders for British companies worth up to £250m will emerge.

The British Government has exchanged letters regarding the £39m as yet unspent of the Overseas Development Administration grant it has provided to back the project. Samuel Montagu and Midland Bank International have also arranged a £100m commercial loan.

Daimler-Benz plan to make trucks in Turkey

BY JOHN DAVIES IN FRANKFURT

DAIMLER-BENZ, the West German motor manufacturer, plans to start local production of trucks in Turkey. It is already involved in production of buses and diesel motors in co-operation with local interests.

Daimler-Benz has a 36 per cent stake in Otomarsan, the Turkish bus production company and it hopes that the company will be able to produce more than 5,000 trucks a year, as well as 2,000 buses and 9,000 diesel motors for commercial vehicles.

Otomarsan's workforce will nearly double under the plan to about 3,000 and the new jobs will be offered to Turkish workers now at Daimler-Benz plants in West Germany. The number of shareholders in Otomarsan is being widened from three to eight, including Tuerkiye Is-Bank, the Turkish commercial bank, and Saudi Arabian interests.

The company's basic capital is being boosted from Turkish Lira 550m (£1.1m) to Turkish Lira 9bn. Daimler-Benz said it would retain its stake, but did not disclose how it would contribute to the capital increase.

Daimler-Benz has vehicle production plants in Brazil, Argentina, Spain and the U.S., but because of depressed economic conditions, commercial vehicle output from its foreign works fell 16.4 per cent to 47,200 last year.

But the company said it regarded Turkey as a promising market and aimed to establish a leading role there for its trucks, in addition to its 75 per cent share of the bus market.

Tourism figures down

BY JOHN WICKS IN ZURICH

INTERNATIONAL TOURISM showed a slight decline last year, according to a report issued by the Swiss Tourism Federation in Berne. About 1 per cent fewer foreign tourists travelled in the 25 OECD countries last year than in 1982.

Income from tourism is believed to have risen however by 3.7 per cent in real terms after dropping back by a price-adjusted 0.2 per cent in 1982.

The OECD tourism committee is said to be expecting an expansion in the tourist market this year and next. Only Spain and the UK showed a noticeable improvement in tourist volume last year, with overnight occupancies in Spanish hotels increasing by 4.3 per cent

WORLD ECONOMIC INDICATORS

TRADE STATISTICS

		Mar. '84	Feb. '84	Jan. '84	Mar. '83
U.S. $bn	Exports	17.73	17.21	18.33	16.69
	Imports	26.77	26.15	26.59	19.53
	Balance	−9.04	−8.94	−8.26	−2.84
Japan $bn	Exports	13.95	13.73	13.42	11.63
	Imports	11.45	11.40	11.05	10.18
	Balance	+2.50	+2.33	+2.37	+1.45
W. Germany DMbn	Exports	42.30	41.15	36.56	40.09
	Imports	37.80	36.30	34.62	34.64
	Balance	+4.50	+4.85	+1.94	+5.45
UK £bn	Exports	5.73	6.03	5.24	5.15
	Imports	5.92	5.46	5.56	4.87
	Balance	−0.21	+0.57	−0.32	+0.28
France FFrbn	Exports	68.00	62.80	68.89	55.77
	Imports	70.80	67.40	74.34	62.35
	Balance	−2.80	−4.60	−5.46	−6.58
		Jan. '84	Dec. '83	Nov. '83	Jan. '83
Italy Lirebn	Exports	12,077	8,575	10,766	10,235
	Imports	13,038	10,011	10,488	13,091
	Balance	−961	−1,436	+279	−2,856

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Rockwell International is prime contractor for the U.S. National Aeronautics and Space Administration (NASA) Space Shuttle Orbiters and their Rocketdyne main engines.

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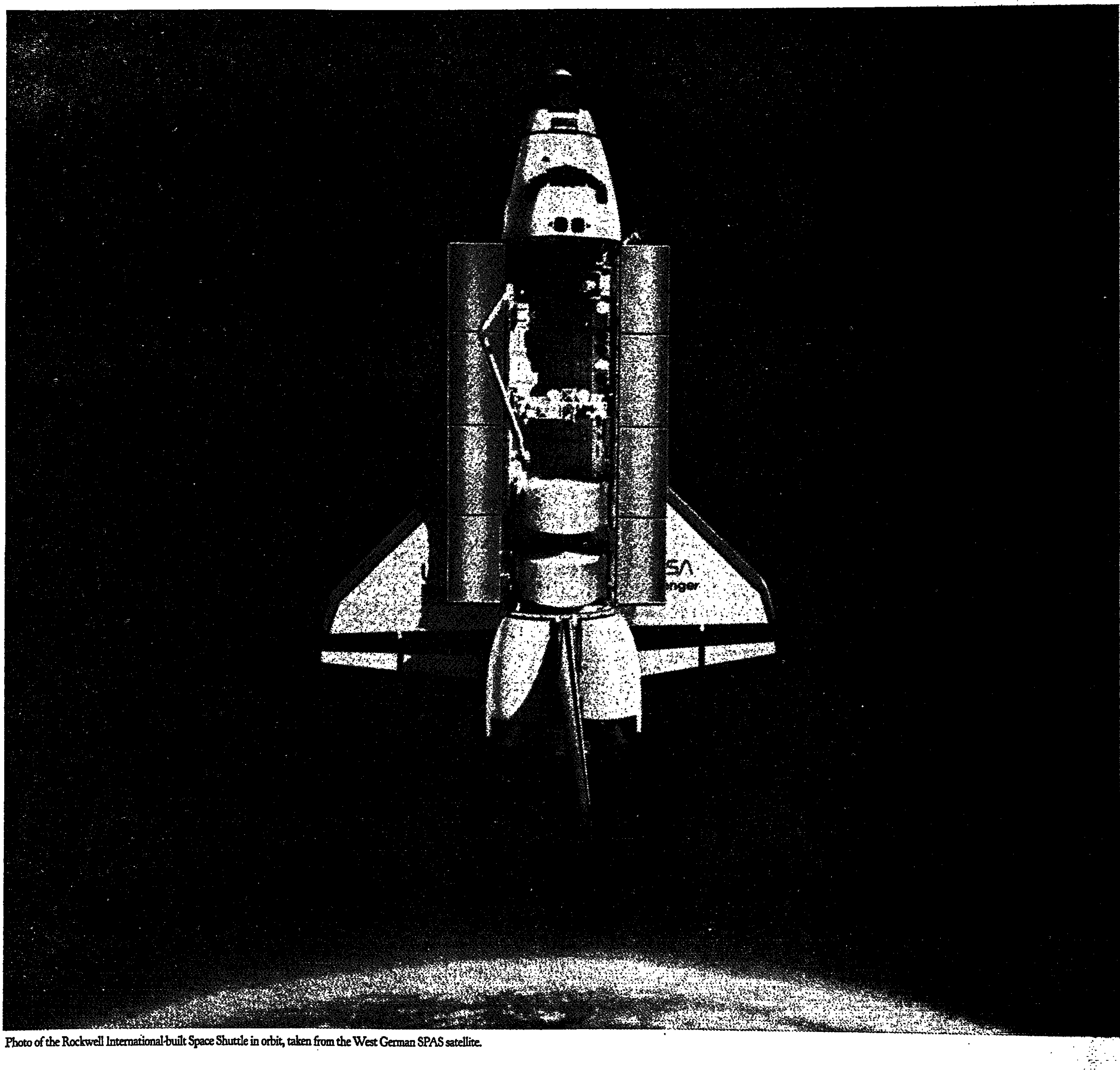

Photo of the Rockwell International-built Space Shuttle in orbit, taken from the West German SPAS satellite.

TUC set for coal strike intervention

BY JOHN LLOYD

TRADES UNION Congress (TUC) leaders are now anxious to play a role in settling the miners' dispute – now entering its eleventh week – though there are no signs that the dominant left majority on the National Union of Mineworkers' (NUM) executive is yet ready for compromise.

The dispute it likely to be discussed at today's meeting of the TUC's finance and general purposes committee – which brings together its senior members – and by the entire general council on Wednesday. It will also surface at talks between Labour and trade union leaders in a meeting today of the TUC-Labour Party Liaison Committee.

Mr Alan Tuffin, general secretary of the Union of Communications Workers, has written to the TUC calling for a one-day conference to co-ordinate assistance to the miners, and for a meeting with Mrs Margaret Thatcher, the Prime Minister.

Mr David Basnett, general secretary of the General Municipal and Boilermakers Union said last night: *"The sooner the general council and the NUM start talking about this dispute the better".*

Barriers to such talks remain formidable, however. Mr Len Murray, the TUC general secretary, found himself at the centre of a controversy over his advice to TUC regional officials in Yorkshire and Humberside that they had exceeded their authority in calling for one-day strikes in their areas.

His initiative was roundly condemned over the weekend by these officials, and by a conference of the Northern Regional Labour Party in Newcastle.

Moves to bring the two sides together will continue today with a meeting between Mr Ian MacGregor, the National Coal Board (NCB) chairman and Mr Stan Orme, Labour Party's Energy spokesman. Mr Orme is expected to urge a relaxation of Mr MacGregor's insistence that 20,000 jobs go in the industry with a loss of 4m tonnes of capacity.

Mr MacGregor is not expected to offer any significant compromises – but the NCB may be interested in *exploratory talks*

Union challenged on Hitachi pact

BY OUR INDUSTRIAL STAFF

A REMARKABLE example of a Japanese-style industrial relations system is about to be put into place at the Hitachi television plant in Hirwaun, South Wales.

The agreement, between the company and the Electrical and Plumbing Trades' Union (EPTU), has already angered the other unions which had operated in the plant and are now cut out of negotiating rights under its terms.

They include the white collar unions ASTMS and AUEW-Tass, the engineering and building workers unions, which are to take the EPTU to the TUC's disputes procedure alleging a serious breach in the procedures governing inter-union conduct.

Much more far-reaching, however, are the terms of the agreement itself. It begins by admitting that the "existing business ... is almost bankrupt ... the existing factory standards and efficiencies are the worst in the UK in any competitor comparison" Ten days ago the company announced a cut of 500 in its 1,300 jobs.

It says that the conditions in the agreement are "essential to Hitachi as a beginning" if the company is to remain. By British standards, they are both tough and egalitarian.

All disputes must be resolved "without lock-out and without any form of industrial action" by individuals or groups. Disputes will be referred to a "company members' board."

Workers are expected to abide by the "guiding principles" of the Hitachi management philosophy.

Other features of the agreement are a 7 per cent pay rise to all staff – a relatively generous one – but without negotiation; all workers may be required to perform "whatever jobs and duties are within their capabilities" and all employees, including middle and senior managements must wear company uniforms and name badges. Overtime working is mandatory "to suit the needs of the business."

Hitachi will have the right to challenge the credentials of shop stewards who will be elected annually.

Kinnock rules out any deal with Alliance

BY JOHN HUNT

MR NEIL KINNOCK, leader of the Labour Party, yesterday firmly ruled out the possibility of a coalition between his party and the Social Democratic Party (SDP)/Liberal Alliance if there is no decisive party majority after the next general election.

He also confidently predicted that Labour would not be beaten into third place by the Alliance in the elections to the European Parliament. Labour, he said, would do better than in the Euro-elections of 1979 when it won 17 seats to the Conservative Party's 60.

The campaign for the European Parliament, with voting taking place in 79 UK constituencies on June 14, will go into high gear today. Mr Kinnock will head a Labour press conference and Mrs Margaret Thatcher, Prime Minister, and a big team of ministers will be launching the Conservative campaign.

Interviewed on BBC radio yesterday Mr Kinnock dismissed recent suggestions from Mr Frank Field, Labour MP for Birkenhead, that Labour might eventually have to form a coalition government with the Alliance.

He said the suggestion was a "fad," entirely unnecessary, impracticable and dishonest. If Labour did not have a clear majority at the general election then there would have to be another election so that it would be returned with the power to "clear up the mess."

Dealing with suggestions that Labour might come third to the Alliance in the Euro-elections he said: "It is not going to happen." He saw specific reasons why Tory voters had gone over to the Alliance in recent Parliamentary by-elections, but these did not apply to the Euro-elections. There would be no slippage of Labour votes and the party's share would be "very substantially higher" than last time.

Labour will be attempting to turn the elections into a referendum on Mrs Thatcher's domestic record in the year since the general election.

It will be proposing a joint reflation with other European countries to reduce unemployment and contrasting this with the growth of unemployment under the Tories. Labour has a problem inspiring its party workers, however. Many of them are opposed to the Community.

Jobs plea for world economic summit

BY JOHN LLOYD, INDUSTRIAL EDITOR

TRADE UNIONS in the industrialised countries will press for higher employment and control of technological change at the world economic summit to be held in London on June 7–9.

The trade union advisory committee (Tuac) of the Organisation for Economic Co-Operation and Development will meet Mrs Margaret Thatcher, Prime Minister, who is to chair the summit on May 31.

Its statement for Mrs Thatcher says: "Governments have the responsibility to provide a framework for economic employment growth – and the most realistic way to achieve this is through co-operation which involves the trade unions and business community."

Ironically, the man to present this statement will be Mr David Basnett, Tuac's chairman, who is also general secretary of the General Municipal and Boilermakers Union. This union was the major influence behind the UK unions' decision to leave the National Economic Development Council, the main tripartite forum. The decision was taken because of the banning of unions at the Government's communications centre at Cheltenham.

Mr Basnett said yesterday his message to world leaders would be: "Let us put employment on top of the agenda for the whole world and let us acknowledge that technology and progress are our friends if we approach this matter together."

Editorial comment, Page 18

UK NEWS

Ministers wrangle over costs of property tax Bill

BY ROBIN PAULEY

A HEATED argument has broken out between Treasury and Environment Department ministers about how much should be added to next year's public expenditure plans to deal with the consequences of the Rates (property tax) Bill which seeks to curb high-spending local authorities, and the promises given to MPs to limit damage to the Bill's parliamentary passage.

Environment Department ministers are asking for more than £1bn to be added into the 1984-85 public spending plans, while the Treasury is offering only about £500m.

Ministers involved in the annual round of talks about public expenditure levels will discuss the disagreement at a meeting this week of a sub-committee of the Cabinet's economic committee. If no agreement can be reached the issue may have to go to the full Cabinet.

The Environment Department's arguments for more than £1bn cover three areas:

- The 12 to 20 councils to have their expenditure "capped" under the Bill will need to be given reasonable targets which implies substantially raising their current targets, some of which are being overshot by 80 per cent.
- During a recent parliamentary debate, Environment ministers promised MPs from low-spending areas that once the Rates Bill was effective it would be possible to give the Tory areas easier (higher) targets.
- Local councils have exceeded their budgets by around £850m this year, and some allowance for this needs to be made for realism in the next year's figures.

Environment Department figures confirm an earlier analysis by the Financial Times which estimated that the cost of the first item would be at least £500m, and the second item would cost at least £400m just to maintain the 1984-85 target methodology for 1985-86. To ease the position of councils would cost a lot more.

Initial Treasury reaction to the Environment Department's plight over the cost of the Rates Bill was initially sympathetic and Mr Peter Rees, Chief Secretary, has pointed out that there is a large contingency reserve of £3.75bn for 1985-86.

But now the department has put figures on its claim, the Treasury is less enthusiastic, and the £500m gap between the two negotiating positions means that some tough bargaining lies ahead.

The Treasury is arguing that the promise to help some areas does not need as large a percentage increase to targets as Mr Patrick Jenkin and his colleagues claim. They also reject his argument that if the Rates Bill is to appear sensible the expenditure limit for the "capped" councils must be very close to their target. The Treasury view is that there can be a considerable gap between the two figures.

Fowler in favour of portable pensions

By Peter Riddell

MR NORMAN Fowler, the Social Services Secretary, is set to come out in support of the introduction of personal portable pensions alongside the present company based occupational framework.

The five man inquiry team under the chairmanship of Mr Fowler is close to finalising proposals which are intended to permit much greater flexibility in personal pensions while not undermining existing schemes.

At a meeting earlier this month at the Commons, with 30 to 40 Tory backbench MPs, Mr Fowler indicated his support for personal portable pensions. He also referred favourably to proposals produced last month by the Legal and General Assurance with whose executives he has held discussions.

Most of the MPs present at the recent meeting apparently were strong backers of portable pensions in order to assist people who change jobs frequently and the many workers without occupational schemes. Reservations were expressed by only a handful of MPs who are pensions specialists.

Mr Fowler's report is expected to be published next month or in early July. Legislation is not likely until the 1986 session but the timing could depend on the response to the report.

Unilever head tells Government not to intervene in industry

BY JOHN LLOYD, INDUSTRIAL EDITOR

GOVERNMENT should steer clear of any attempts to intervene in industry in order to sponsor innovation, or to construct an "industrial policy" – according to one of the country's leading industrialists.

Mr Kenneth Durham, chairman of Unilever, says that some Cabinet Ministers have "exactly the same sentiments" in wishing to intervene in industry as their Labour predecessors.

In a paper published today by the Conservative Bow Group, of right wing MPs Mr Durham says: "I feel pretty certain that any industrial policy actively pursued and sponsored by Government would degenerate into a policy for protection or for subsidising uncompetitive industries because they are, as we hear so often, "basic". I am beginning to believe that "basic" is now a euphemism for "old", certainly for old-fashioned."

Mr Durham also defends the maintenance of some resistance to innovation and change – though in the context of advocating more exploitation of new ideas. He says that "an organisation totally devoid of resistance to change would fly apart at the seams. It *must* be ambivalent about radical technical innovation. It *must* both seek it out and resist it."

He defines innovation, not as invention of discovery, but as "the synthesis of, on the one hand, a particular customer or market need and, on the other, the technical means of satisfying that need. The third dimension is that of time, for the synthesis must take place at the time that the market need is clearly expressing itself."

("Innovation – the need and the difficulties," by Kenneth Durham; Bow Publications, 240 High Holborn, London WC1V 7DT; 4pp; 50p.)

UK NEWS

Approval given for Ulster mining project

BY OUR BELFAST CORRESPONDENT

THE GOVERNMENT has agreed to a 10-year pilot project for the open cast mining of lignite, or brown coal, in Northern Ireland. It is likely to lead to the building of a new power station.

A mining licence and planning permission have been granted to Northern Strip Mining, a wholly-owned subsidiary of the Mining Investment Corporation (Mincorp) and a part of the Burnett and Hallamshire Group.

The licence provides for the extraction of up to 1.25m tonnes of lignite a year from an area in County Antrim on the shore of Lough Neagh. Work should begin in two years.

Reserves of more than 100m tonnes have been identified. Prospecting is continuing in an effort to verify an estimate of a further 300m tonnes which could lie beneath the waters of Lough Neagh. The mining operation will create up to 100 jobs in the short-term, and this could grow to 300.

Mr Adam Butler, Minister of State at the Northern Ireland Office, said the decision was of major significance to the local economy. The progressive use of lignite would help reduce the dependence of the Northern Ireland Electricity Service on imported fuels and would give greater flexibility to the province's energy options.

Lignite is found in quantities in Germany, Greece and Yugoslavia where it is used mainly for electricity generation. The pilot project in Ulster, as well as producing lignite for sale, will provide more information on the quality of the fuel.

The prospect of a new power station is some way off but Mr Butler said that electricity generation at the mine site was the most cost effective way of using the reserves.

He expected that it would progressively dilute the high cost of producing power from oil. The first effects, he said should be to reduce the size of the government subsidy which holds down electricity prices in Northern Ireland.

Farmers press for milk output plan

BY ALAN FORREST

DAIRY FARMERS will be meeting ministers and MPs in London this week to try to agree a plan to cushion their industry from the effects of EEC cuts in milk production.

A Department of Agriculture spokesman said yesterday: "It will not be a plan that involves a lot of Government support, although there will be Government funds involved.

"What is being suggested is a switch of the burden on the small dairy farmers to the larger ones." This would involve the "recycling" of about £25m within the industry.

Negotiations begin today when Welsh farmers' leaders – there are more than 4,000 milk producers in west Wales alone – start a week of talks. Mr Myrddin Evans, president of the Farmers Union of Wales, will meet Mr Nicholas Edwards, Secretary for Wales today.

Other farming delegations will meet Mr Michael Jopling Minister of Agriculture, and members of a House of Commons Select Committee later in the week.

The Ministry said: "We are aiming at an agreement which will protect the dairy farmer with fewer than 40 cows. It involves re-allocating milk with the larger farmer taking the extra burden."

Mr Evans said yesterday: "Unless the full impact of the EEC cuts can be blunted, the heart will be torn out of important milk producing areas." And farmers fear a further loss of jobs in areas such as Wales where unemployment is already above the national average.

In this week's talks the Welsh farmers will present their own survival plan. This recommends Government compensation to farmers giving up milk production and also exemption from quota penalties for smaller dairy units.

Shipping freight rates 'still depressed'

BY ANDREW FISHER, SHIPPING CORRESPONDENT

SHIPPING FREIGHT rates moved up in April and the latest laid-up tonnage figures showed a decrease, but the General Council of British Shipping (GCBS) drew little comfort from its most recent set of world statistics.

"The huge volume of idle tonnage, 12 per cent of all world tonnage, continues to keep freight rates depressed," the GCBS said. In March, the laid-up total fell by 2.5m deadweight tonnes to 80.4m dwt, mostly in tankers.

The GCBS said that the fall in the laid-up figure and the rise in freight rates were both very small. "We don't see an improvement in shipping markets generally until there is a more sustained growth in world trade and until supply and demand are more nearly into balance."

The rate improvement was expressed in a five point rise in the GCBS's tramp trip charter index to 111 at the end of April. This index (1976=100) measures single voyage rates.

The March fall in the figures of world laid-up tonnage followed a slight rise the previous month. The peak level was 100.5m dwt in May last year.

EUROPEAN SPACE PROGRAMMES

The above survey, due to appear in today's paper, will now be published on Wednesday May 23

UK NEWS

Builders begin campaign to lift additional VAT levy

BY JOAN GRAY, CONSTRUCTION CORRESPONDENT

THE CONSTRUCTION industry is mounting a campaign to reverse the Government's decision to impose value-added tax (VAT) on building improvements and alterations in addition to repair work.

A proposal to levy VAT at 15 per cent on this work was included in this year's budget. The Building Employers' Confederation (BEC) estimates that about £100m worth of building work will be lost to the industry in this financial year as customers cancel or scale down their construction needs.

They also fear that the tax decision could cost up to 100,000 jobs and encourage the growth of unscrupulous builders who do not pay VAT.

The BEC is writing to Mrs Margaret Thatcher, Prime Minister, complaining about the effects of government policies, while the National Contractors' Group (part of the BEC) has enlisted advertising agents Saatchi and Saatchi – which also acts on behalf of the Conservative Party – to help to present the campaign.

"We are not going to be frightened of having a go at the Government and making quite clear the effects of not spending on schools, hospitals and factories", said Mr Michael Millwood, BEC president.

Tory MPs recently have also attacked the VAT proposal as "clumsy, damaging and ill-thought-out." A peculiar irony of the plan is that it could harm the Government's housing policy.

The Government is seeking to encourage inner city building and urban renewal, but the VAT ruling is making many builders have second thoughts about refurbishing decaying local authority housing to produce cheap homes for sale.

Ford predicts jump in diesel car sales

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

THE BRITISH new car market is changing rapidly, Mr Sam Toy, Ford of Britain chairman, says. Cars bought for business purposes are taking a smaller share of the total market, and he predicts that diesel car sales will more than double within a year.

Purchases of new cars by fleets, businesses and partnerships of all kinds over the past four years have dropped from 55 per cent of the market to about 47 per cent, according to Ford's research.

Suggestions that the fleet and business sales account for 60 per cent or 70 per cent of the market are "nonsense" Mr Toy, says.

Ford has been tracking "business purpose" car sales for five years and its statistics cover every type of purchaser, from the small businessman who buys one vehicle every four years to the big fleets which buy thousands each year.

Mr Toy predicts that diesel car sales, which were taking a record 1.7 per cent of the market in the first four months of this year, will account for 4 per cent to 5 per cent by April next year.

Ford recently launched throughout Europe cars with its first small diesel engine, the 1.6 litre unit brought into production at the cost of £160m at the Dagenham plant near London.

Seventy per cent of the engines are to be exported to continental markets where the diesel sector of car sales is much higher – 10 per cent on average.

But even in Britain, where demand so far has been minimal, Ford expects diesel versions to account for 8 per cent to 12 per cent of both Fiesta and Escort sales by this time next year.

Ford has been accused by some retailers of attempting to create a market for small diesel cars in the UK rather than follow the more usual course of giving the market what it demands.

However, Mr Toy says: "Once the industry and the market begins to understand the economies offered by diesel, the large fleets will have to buy more of them."

Ford has joined those manufacturers who forecast that UK new car sales will reach record levels this year. The company looks for registrations of around 1.8m compared with the peak 1.79m last year.

The price war – which Ford rejoined by launching a new dealer incentive programme two weeks ago will contribute to the record, but Mr Toy maintains: "There is still a chance that the industry will come to its senses. I believe we could still get back to orderly marketing. That is the right way for the consumer, dealer and manufacturer."

Editorial chief to quit TV-am

By Raymond Snoddy

MR GREG DYKE is to resign as editor-in-chief of TV-am, the London-based commercial breakfast television company. The resignation will be formally announced after a board meeting tomorrow.

Mr Dyke's impending departure, which follows the arrival of Mr Bruce Gyngell as managing director of TV-am earlier this month, is likely to be a serious blow to the company.

He took over editorial control of the programme a year ago today when the peak daily ratings were stuck at 200,000 viewers. The latest ratings show TV-am with peak ratings of 1.5m, 100,000 ahead of the BBC's Breakfast Time.

It was the first time TV-am had beaten the BBC outside a holiday period.

It is believed that the dispute, which will lead to Mr Dyke's departure from TV-am, involves disagreement over the editorial budget and the allocation of resources.

Under Mr Timothy Aitken, the chief executive, Mr Dyke was given a free hand on editorial matters. Mr Gyngell, a close associate of Mr Kerry Packer, the second largest shareholder in TV-am, is involving himself much more in the detailed management of all aspects of the company.

Mr Gyngell, who has nearly 30 years experience in television, is also looking for further cutting of costs at the station which is losing around £300,000 a month. Costs are running at between £1.25m to £1.3m a month while advertising revenue in recent months has been around £1m.

The recent £4m refinancing involved a cost cutting deal with the unions, a no compulsory redundancy clause and costs envisaged at £1.25m a month for the rest of this year.

Mr Gyngell is said to be trying to get this figure closer to £1m. Mr Packer is said to believe the station which employs around 370 is overmanned and over-expensive.

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

IN MANY companies the annual forecast is not much more than a therapeutic document designed to keep accountants, bankers and senior management happy. When it's completed and approved, it ends up in the filing cabinet until next year. In Air New Zealand, where chief executive Norman Geary has wrought a remarkable recovery, that's not the case at all.

"The annual plan isn't something we leave on the shelf to gather dust," he says firmly. "It's a dynamic document and we set a lot of store by it."

For Air New Zealand's executives that document provides an almost daily reference point. Because they are largely responsible for the numbers that it contains, they are by definition accountable to its forecasts. The much-thumbed plan also lies on the table at the airline's monthly meeting, a get-together of almost sacramental importance to Geary. It's the occasion when, together, 30 of his top team compare each other's performance against their own numbers.

That performance has been impressive in the two years since Geary left one of British Petroleum's top jobs in Europe to rescue Air New Zealand. That was in February, 1982, and the airline was in a bad way. Morale was low after the crash in November 1979 of one of its DC10s into Mount Erebus in the Antarctic and the agonising public enquiry that followed. Losses would peak in the 1981-82 financial year at nearly $NZ90 (£42m). Staff was grappling with a difficult merger with the domestic carrier, National Airways Corporation. Numbers had swollen to a record 9,000, pushing the annual payroll to NZ$200m. Finally, Air New Zealand had acquired a 747 fleet, replacing the DC10s (which had also been grounded), whose seats were hard to fill.

Still, recalls Geary, Air New Zealand had a high reputation with the public and that was something to build on. Geary, now 45, had never run an airline before. But in BP, where he had previously been the regional coordinator in Europe for the profitable development of the giant company's activities in Germany, Benelux, Sweden, Norway and Denmark, he had built up a strong track record for running a variety of BP's non-oil interests: detergents, minerals, fish-farming, forestry, chemicals and even coal-mining. Though he is in style rather quiet and thoughtful, albeit with a ready grin, Geary clearly brought very strong management ideas into Air New Zealand. Equally clearly, he did not like what he saw.

Trevor Humphries/Phil Thompson

How Norman Geary rebuilt Air NZ

BY SELWYN PARKER

Within two months he had persuaded a badly-shaken board to accept a complete revision of the management structure of his predecessor, Morrie Davis. By mid-1982 the new structure was in place, and working.

Senior managers (some of whom were nudged sideways) were removed from the executive suite on the nineteenth floor of the airline's office block in downtown Auckland and lodged with their own staff. The divisions were reshuffled into six major corporate areas: administration, marketing, planning, finance, operations and personnel. Accountability was built into the system, not only through the annual plan and the monthly meeting but also through the hard-driving (and hard-driven) route managers, the work-horses who are individually accountable for the performance and profitability of their designated route.

Though he had never run an airline, Geary has acquired the art of extracting performance from big and diverse organisations. "You can't afford to sit in an ivory tower," he insists. "This is a problem with many companies. The successful ones have a team of people who are very interested in what is going on at the shopfloor, at the coal face side of things," he says.

While managers got acquainted with the shopfloor, Geary progressively applied his novice theories on how an airline should be saved. He explains: "I can perhaps see things in a slightly different way, being a relative newcomer (to aviation), and I am absolutely sure that the old ways of doing things no longer apply. A lot of (airline) managers don't appreciate that. We need to place more importance on marketing and on a fundamental change to costs. It's a matter of getting the cost structure sorted out, of shaping up airlines for a low-growth environment. Up until four or five years ago the industry experienced growth of 15-20 per cent in traffic terms. It won't be like that any more. We are not going to see a return to high annual figures. Airlines won't be able to grow out of their problems by volume."

Obviously, that view of the industry's future implied a much-reduced payroll. From the peak of 9,000, staff numbers were cut—entirely by voluntary redundancy—to 6,900 in early 1984, and by March 1985, will bottom out at 6,600. Despite the drop in personnel, performance actually increased —22 per cent less staff resulted in 12 per cent more productivity. "Staff are working harder now," says Geary with satisfaction. An efficiency drive boosted that productivity.

One of a series of reports established that a massive 30 per cent of staff simply processed paperwork and now those people have largely been replaced by information-processing hardware. Empty conference rooms in head office were turned into productive space. Cabin staff accepted de-manning schemes. Staff travel privileges were severely limited.

A believer in marketing, Geary began to make the product suit the need. "Airlines in the past have placed great emphasis on the number of seats and on the operational side. To some people we are still selling seats or rides in the air. In Air New Zealand we are not," he says emphatically. "We are marketing New Zealand and the South Pacific, and Air New Zealand in that context. There's now a range of products which suit different segments of the market." Clearly the national carrier's new-found marketing bias puts extra pressure on the route managers who must, says Geary, "come up with the right plan, right budget, right organisation and right product."

Geary's matrix management structure, the basis of his recovery plan, has produced results in the company accounts sooner than anybody expected. In his first year he more than halved losses, reducing them by NZ$57m to NZ$32.6m, and incidentally increasing revenue by 18 per cent against a rise in expenditure of just 8 per cent. In the year 1983-84 Air New Zealand has jumped back into the black very much against the international trend. Half-yearly operating profit was NZ$18m and the second half should be even better, say airline sources. Many observers expect a full-year profit of over NZ$50m.

Though it's too early for the redundancies, which were achieved on generous terms, to have shown up in the accounts, the recovery was greatly aided by the co-operation of the unions which went along with relentless cost-cutting to help the airline get back on its feet. Some lament the effects of Geary's textbook efficiency. According to Jan Waddell, vice-president of Air New Zealand employees' Airline Stewards and Stewardesses Association, the airline "is now more like a company run by management experts and the function of the corporation just happens to be aviation."

Nonetheless, Air New Zealand's competitors unanimously concede the effectiveness of Geary's actions. John Swingler, British Airways' New Zealand manager, reckons the changes in management structure have "made a significant difference to the way Air New Zealand operates—and they are similar to the changes that we have made."

And Air New Zealand's other main competitors, Continental Airlines and Pan American (the latter competes mainly on services to the West coast of America) believe Geary has done a great deal for the airline.

After a series of high-profile chief executives, Geary is something of a novelty. Though he wanders about head office and chats to staff, keeping an eye on things (or, as he says, "floating"), Norman Geary is quite happy to remain relatively anonymous while his managers hew away at the coal face. Indeed, some cabin staff say they would not recognise him if he sat in one of their seats.

None of this, however, means that Geary doesn't know what's going on. A critical flow of information passes across his handsome desk each day, including reports on all international flights with full details on reasons for any hiccups or delays. If the delay extends beyond a certain time, he gets involved. "It doesn't do any harm," Geary says with a rather impish grin, "for managers to know that the chief executive is interested in what's going on."

Unexpected repercussions from an Anglo-German merger

BY LESLIE COLLITT

WEST GERMAN companies involved in a foreign takeover normally do not charge in with new brooms to sweep out the previous management and put in their own executives. More typically, they attempt to discover what the acquired management can offer the parent company rather than make any rash moves that might destroy its morale and motivation.

Yet such an approach can have its unforeseen effects, as Schering, the West Berlin-based pharmaceuticals and chemicals group with annual sales of DM 3bn (£790m), discovered after spending £119m to buy FBC, a UK agrochemical company jointly owned by Fisons and Boots.

Previous contacts with FBC resulting from a co-operation agreement with the UK firm had given Schering executives the impression that British management was a good deal more autocratic than its German counterpart. This belief has gained hold since the takeover last July.

FBC management, it appears, had fully expected Schering to come in and lay down the new law. However, this did not happen. Instead the British were somewhat bemused when Schering executives sat down with the FBC board to discuss the organisational steps to be taken. The British side expected Schering to present a master reorganisation plan while the Schering people said they regarded the British management as their partner. As a result the Germans were regarded by the British as too indecisive in their managerial approach.

Dr Christian Bruhn, the Schering board member responsible for FBC, says the UK company's management was organised along more military lines, with the chairman giving the orders which were then carried out. Schering, he says, although tightly organised, believes it is vital to achieve a consensus within management and among employees in general. With this approach to management, he says, Schering lies somewhere between FBC and the Japanese.

"Of course, one must not forget there are no works councils in Britain and that our managerial style developed historically," explains Bruhn.

Schering, like many old-established German companies, has a turbulent history. Founded last century, it has twice had to rebuild its international operations—after each of the two World Wars. The early 1950s saw the company re-establishing its presence abroad first throughout Europe, and then in Latin America and the Far East.

Its second re-entry into the U.S. market was initially through a licensing of products before it established a laboratory to conduct clinical research. In 1969 Nor-Am Agricultural Products in Chicago was acquired to develop and distribute agrochemicals. Today, Schering has five production subsidiaries in the U.S. with a turnover last year of $283m and profits of $9m. Total sales in the U.S., including exports from West Germany, amounted to 17 per cent of group turnover—equal to its sales in West Germany.

Schering was interested in acquiring FBC because it complemented its agrochemicals division which, while still quite profitable, was bound to become less so as its patents on Betanal, a best-selling herbicide, ran out in different countries. By contrast to Schering, FBC's sales organisation in Europe was weak and its presence on the U.S. market was too small to be profitable. Neither Boots nor Fisons was prepared to invest further in the company.

Combined, Schering and FBC have agrochemicals sales of DM 1.2bn annually and spend DM 100m a year on research. The merger, says Bruhn, will put Schering—which is now in 11th place internationally among agrochemical producers—in a far better position to compete with the top 10 in the field.

Inevitably a certain number of FBC posts were rendered superfluous by the takeover—mainly in sales—and Schering offered those affected—about 30—equivalent jobs in Berlin.

But none of them had any desire to leave the Cambridge area for walled-in West Berlin despite higher salaries in Germany, much lower taxes in Berlin and Schering's offer to pay for their children's schooling in Britain. The wives in particular were not prepared to resettle in Berlin. Their husbands left the company and in most cases took lower paying jobs in the UK.

Terry James remains as chairman of FBC, travelling frequently to West Berlin. Dr Mike Smith, of FBC, has been put in charge of Schering's international agrochemicals production while staying on in Cambridge. He was not prepared to move to Berlin, nor did Schering want him to.

Initially, this caused some raised eyebrows among Berlin staff who coveted Dr Smith's post. But the manner in which he conducts his role is seen as inevitable in an increasingly multinational company.

Bruhn says of FBC's expectations following the takeover that his new British colleagues were more in favour of centralisation. "But we did not want to downgrade FBC into a sales company," he says. "It was important for us to avoid any reduction in motivation."

Business courses

Works and production: works management. Bromley, Kent. June 24-July 6. Fee: £1,350. Details from The Client Services Director, Sundridge Park Management Centre, Bromley, Kent BR1 3TP. Tel: 01-460 8585.

Developing managers after a recession. Uxbridge. June 19-21. Fee: £360. Details from: The Secretary, Management Programme, Brunel University, Uxbridge, Middlesex UB8 3PH. Tel: 0895 56461.

Industry Media Course. Eastbourne. June 24-27. Fee: £450 + £67.50 VAT. Details from CAM Foundation, Seminar Department, Abford House, 15 Wilton Road, London SW1V 1NJ. Tel: 01-828 7506.

Managing the finance department. Brussels. June 18-21. Fee: BFr 60,000. Details from Management Centre Europe, Avenue des Arts 4, 1040 Brussels, Belgium. Tel: 01 219 03 90.

European symposium on the long term future: Western Europe on the road to the information society, Zurich. June 18-20. Fee: SwFr 1,040. Details from Gottlieb Duttweiler Institute for Social and Economic Studies, "Green Meadow" Foundation, Langhaldenstrasse 21, CH-8803 Rüschlikon (near Zurich). Tel Zurich 01-461 3716. Telex 55699.

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—

Anchor Chemical, Piccadilly Hotel, Manchester, 11.30
Arrow Chemicals, Stanhope Road, Swadlincote, Burton-on-Trent, 12.00
Comben, Dragonara Hotel, Redcliffe Way, Bristol, 10.30
Estates and General Invests, Claridge's, Brook Street, W, 3.00
Fisher (James), Lisdoonie Hotel, Abbey Road, Barrow-in-Furness, 12.00
Nationwide Leisure, Westbury Hotel, Conduit Street, W, 11.30
Tristel, 1 Serjeants' Inn, EC, 10.30

BOARD MEETINGS—

Finals:
Assoc British Foods
Bishopsgate Trust
Bonusbond
Cakebread Robey
Ivory and Sime
JSD Computer
Monks Invest Trust
Prince of Wales Hotels
Interims:
Australia and New Zealand Banking
Brooke Tool Engineering
Consolidated Co Bultfontein Mine
Dutoitspan Mines
Espley Trust
Griqualand West Diamond Mining
Radio City (Sound of Merseyside)

DIVIDEND & INTEREST PAYMENTS—

Bank of Tokyo NV Gtd Fltg Rate Notes 1990 $117.57
Beazer (C. H.) 3.5p
British Empire Sec and General Trust 0.2p
Collins (William) 7.5p, A 7.5p
Commerzbank AG DM 6, Cdbr (iss Warburg) DM 1.2
Commerzbank Overseas Finance NV Fltg Rate Notes 1989 $250
Druck 1.3p
Exchequer 2½pc 1986 1¼pc
First Chicago Overseas Finance Gtd Fltg Rate Sub Notes 1994 $254.89
Friedland Doggart 4p
Intnl Income Prop 22 cts
Land Investors 0.2p
London and Strathclyde Trust 0.85p
Memec 1.33p
Murray Clydesdale Invest Trust 0.4p
Norfolk Capital 0.2p
Pressac 0.7p
Treasury 3pc 1985 1½pc
Treasury 12½pc 2003-05 6¼pc

TOMORROW

COMPANY MEETINGS—

APV, Station Way, Crawley, West Sussex, 12.15
Assoc British Ports, London Press Centre, 76 Shoe Lane, EC, 12.00
Astbury and Madeley, Finch Road, Lozells, Birmingham, 12.00
BETEC, Mandeville Road, Aylesbury, Buckinghamshire, 12.00
Bank of Scotland, 38 St Andrew Square, Edinburgh, 12.15
Bardsey, Britannia Hotel, Grosvenor Square, W, 12.00
Fisons, Merchant Taylors' Hall, 30 Threadneedle Street, EC, 11.00
Gould (Laurence), 22 Austin Friars, EC, 12.00
Henriques (Arthur), Midland Hotel, Manchester, 12.00
Lambert Howarth, Keirby Hotel, Burnley, 12.00
NMW Computers, Stapeley House, London Road, Nantwich, Cheshire, 12.00
Nichols (J. N.) (Vimto), Ledson Road, Wythenshawe, Manchester, 11.00
Ocean Transport and Trading, India Buildings, Liverpool, 2.30
Stag Furniture, Royal Hotel, Nottingham, 12.00
Wood (Arthur) (Longport), Bradwell Works, Longport, Stoke-on-Trent, 12.00

BOARD MEETINGS—

Finals:
Benlox
British and American Film
Diploma
Duncan (Walter) and Goodricke
Fidelity
Parkland Textile
Sainsbury (J.)
TR Property Invest Trust
Tranwood
Whitbread
Interims:
Archimedes Invest Trust
Carr (John) (Doncaster)
ICL
Kelsey Inds
Management Agency and Music
Moran Tea
Northern American Trust
Owen and Robinson
Ranks Hovis McDougall
Scottish National Trust
Stakis

DIVIDEND & INTEREST PAYMENTS—

Astbury and Madeley 4.125p
Conversion 10¼pc 1999 5¼pc
Exchequer 14pc 1984 7pc
Exchequer 12½pc 1985 6¼pc
Fisher (James) 1.6p
Good Relations 2.8p
Lex Service 6p
Nichols (J. N.) (Vimto) 7p
Park Place Invests 1.75p
Smith and Nephew 3.1p
Treasury 2½pc I-L Cnv 1999 £1.3142
Treasury 14pc 1998-2001 7pc
Wood (Arthur) (Longport) 3p

WEDNESDAY MAY 23

COMPANY MEETINGS—

Automotive Products, Grosvenor House, Park Lane, W, 12.00
Bemrose, Stationers' Hall, Ave Maria Road, EC, 11.45
Biomechanics Intnl, Great Eastern Hotel, Liverpool Street, EC, 12.00
Charterhouse Petroleum, Ironmongers' Hall, Barbican, EC, 11.30
Elys (Wimbledon), 22-26 Wimbledon Hill Road, Wimbledon, 4.00
Fogarty, Havenside, Fishtoft Road, Boston, Lincolnshire, 2.15
Gee (Cecil), Claridge's, Brook Street, W, 12.00
Henera, Dyers Hall, 10 Dowgate Hill, EC, 12.00
Metalrax, Plough and Harrow Hotel, Hagley Road, Edgbaston, Birmingham, 11.45
Moss Bros, 21-26 Bedford Street, Covent Garden, WC, 12.00
Neill (James), Moore and Wright, Handsworth Road, Sheffield, 12.00
Rockware, Great Eastern Hotel, Liverpool Street, EC, 3.00
Rotork, Bramwill Lane, Bath, 3.00
Slough Estates, Savoy Hotel, Strand, WC, 2.30
Southampton, IoW and SOE Royal Mail Steam Packet, Post House Hotel, Herbert Walker Avenue, Southampton, 12.30
Sun Life Assurance, 107 Cheapside, EC, 12.30

BOARD MEETINGS—

Finals:
Allied Irish Banks
Boots
Buckley's Brewery
Channel Tunnel Invests
Delyn Packaging
Emray
Jersey Gen Invest Trust
London and Northern
Moss (Robert)
Swedish Cellulose AG
Whitbread Invest
Interims:
Avon Rubber
Bass
Cronite
Irish Distillers
Redfearn National Glass
Sidlaw
Tunstall Telecom

DIVIDEND & INTEREST PAYMENTS—

APV 6.75p
Armstrong Equipment 0.2p
BBL Intnl NV Fltg Rate Notes 1986 $262.26
Banco De La Prov De Buenos Aires Fltg Rate Notes 1988 $262.26
Comben 1.45p
Great Northern Telegraph DK 21.6
Lamber Howarth 4.25p
Mackay (Hugh) 2.6p
Pirelli UK 7pc2ndDb 1986-91 3½pc
Shell Transport and Trading 15.8p
Southampton IoW and SOE Steam Packet 9p
Sunderland 11½pc Red 2008 5¾pc
Tesoro Petroleum 10 cts
Treasury 13¼pc 1993 6⅝pc
Tyzack (W. A.) 0.3p

THURSDAY MAY 24

COMPANY MEETINGS—

Beaufort, George Hotel, Huddersfield, 12.00
Booker McConnell, 69 Cannon Street, EC, 12.00
Brown Bovert Kent, The Churchill, Portman Square, W, 12.00
Business Computer Systems, Sunrise Parkway, Linford Wood, Milton Keynes, 2.30
Carpets Intnl, Mill Street, Kidderminster, 2.30
Clayton, Queen's Hotel, Leeds, 2.00
Conder Intnl, Wessex Hotel, Winchester, 3.00
Cindx Intnl, Glaziers' Hall, 9 Montague Close, London Bridge, SE, 12.00
Edinburgh Securities, 4 Melville Crescent, Edinburgh, 2.15
Edmond, Royal York Hotel, Station Road, York, 11.00
Harris Queensway, Harris House, 76 High Street, Orpington, Kent, 11.00
Harrison Cowley, 22 Queen Square, Bristol, 12.00
House Property Co of London, Eagle House, High Street, Wimbledon, 12.00
Jenks and Cattell, Butchers' Hall, Bartholomew Close, EC, 11.30
Lawrence (Walter), Lawrence Social Hall, Sheering Mill Lane, Sawbridgeworth, Hertfordshire, 12.00
Markheath Securities, Markheath House, High Road, Whetstone, N, 11.00
Marshall (Thomas) (Loxley), Tapton Masonic Hall, Shore Lane, Sheffield, 12.00
Morrison (William) Supermarkets, Hilmore House, Thornton Road, Bradford, West Yorkshire, 11.00
Newarthill, Southampton Hotel, 92 Southampton Row, WC, 12.30
Portals, Howard Hotel, Temple Place, Strand, WC, 12.30
Queens Moat Houses, Moat House Intnl Hotel, Bridgefoot, Stratford-upon-Avon, Warwickshire, 12.00
Suter, Hilton Intnl London Hotel, 22 Park Lane, W, 12.00
Tove, Connaught Rooms, Great Queen Street, WC, 10.30
WW, Caresse House, Pudsey, Yorkshire, 11.30
Weir, Merchants' Hall, 30 George Square, Glasgow, 12.00
Woolworth, Ironmongers' Hall, Aldersgate Street, Barbican, EC, 12.00

BOARD MEETINGS—

Finals:
Cater Allen
Derltend Stamping
Extel
Goldberg (A.)
Hill (Philip) Invest Trust
Plessey
Sandhurst Marketing
TR Natural Resources Invest Trust
Weeks Associates
Young and Co's Brewery
Interims:
ASEA AB
Devenish (J. A.)
Gomme
National Commercial Banking Corpn of Australia
Scottish Invest Trust
Spencer Clark Metal Inds
Wolverhampton and Dudley Breweries

DIVIDEND & INTEREST PAYMENTS—

Atlantic Computers 1p
Beaufort 2.6p
Berry Pacific (Sterling) Fund Ptg Red Pf 7.5p
Christies Intnl 6p
Clayton 3p
Fogarty 2.42p
House Prop Co of London 6p
Invergordon Distillers 2.5p
Merrill Lynch 20 cts
New Kleinfontein Props 3.942642p
Queens Moat Houses 0.665p
Royal Bank of Canada 50 cts
Stockholders Far East Invest 1 ct
Trans-Oceanic Trust 1p

FRIDAY MAY 25

COMPANY MEETINGS—

Ayrshire Metal Products, 17 Church Street, Irvine, Ayrshire, 3.30
Babcock Intnl, Institute of Directors, 116 Pall Mall, SW, 12.30
Benford Concrete Machinery, The Cape, Warwick, 12.00
Bont (Henry), Banner Cross Hall, Sheffield, 12.00
Bowater, Centre Point, 103 New Oxford Street, WC, 11.00
Breedon and Cloud Hill Lime Works, Breedon-on-the-Hill, Leicestershire, 11.00
Central Independent TV, Holiday Inn, Holiday Street, Birmingham, 3.30
Coats Patons, Merchants' Hall, 30 George Square, Glasgow, 12.00
Gaskell Broadloom, Blackburn Moat House, Preston New Road, Blackburn, Lancashire, 12.00
Grattan, Norfolk Gardens Hotel, Bradford, 12.00
Greenbank Industrial, Orient Works, Gate Street, Blackburn, Lancashire, 3.00
Johnsen and Jorgensen Packaging, Hyde Park Hotel, Knightsbridge, SW, 12.00
Menzies (John), Merchants' Hall, 22 Hanover Street, Edinburgh, 12.15
Octopus Publishing, 59 Grosvenor Street, W, 12.00
Photax (London), Brampton Road, Hampden Park, Eastbourne, 12.00
Pritchard Services, Inn on the Park, Hamilton Place, Park Lane, W, 12.00
Relyon, Beam Bridge Hotel, Sampford Arundel, Wellington, Somerset, 12.00
Steel Bros, Sondes Place, Wescott Road, Dorking, Surrey, 12.00
United Ceramic Distributors, Lyttleton Arms Hotel, Hagley, Stourbridge, West Midlands, 12.00
Wadkin, Green Lane Works, Leicester, 3.00
Websters, Great Eastern Hotel, Liverpool Street, EC, 12.00
Whatman Reeve Angel, Chartered Accountants' Hall, Moorgate Place, EC, 12.30
Wilson (Connolly), Northampton Moat House, 12.00

BOARD MEETINGS—

Finals:
Assam-Dooars
Castings
Macdonald Martin Distilleries
Nineteen Twenty-Eight Invest Trust
Toshiba
Western Dooars Tea
Interims:
Davenports Brewery
LPA Inds
Radio Clyde
Tyne Tees Television

DIVIDEND & INTEREST PAYMENTS—

Aluminium Co of America 30 cts
Baker Intnl Corpn 23 cts
Barratt Devets 2.31p
Bemrose 6.6p
Benford Concrete Machinery 2.75p
Boot (Henry) 11.5p
Breedon and Cloud Hill Lime Works 6p
Cape Inds 3.9p
Dowding and Mills 0.95p
Drayton Cons Trust 2p
Eaton 30 cts
Elys (Wimbledon) 6.5p
Gee (Cecil) 2.1p
Home Charm 1.25p
JWT 36 cts
Jersey Electricity 11p
Kalamazoo 0.5p
Kent (M. P.) 0.4p
Malakoff Berhad 5 sen
Midland Intnl Fin Serv BV Gtd Fltg Rate Notes 1987 $52.14
Morrison (Wm) Supermarkets 1.3p
NMW Computers 3.5p
Osterreichische Landerbank AG Fltg Rate Sub Notes 1994 $260.68
Peachy Prop 2.5p
Rotork 2.1p
Scottish Heritable Trust 1 1p
Sharpe and Fisher 1.79p
Stag Furniture 3.5p
Supra 1.15p
Technology for Business 4.2p
Weir 1.75p

SATURDAY MAY 26

DIVIDEND & INTEREST PAYMENTS—

Southend-on-Sea Borough Council 12pc Red 1987 6pc

This week in parliament

TODAY

Commons: until 7 pm, Private Members' Motions, followed by third reading of the Ordnance Factories and Military Services Bill. Motion on the Social Security (Adjudications) Regulations. Consideration of Lords amendments to the Tenants Rights (Scotland) Amendment Bill.

Lords: Health and Social Security Bill, second reading. Child Abduction Bill, second reading. Unstarred question on the Government's approach to negotiations with China on the future of Hong Kong in the light of the visit by the Foreign Secretary.

Select Committees: Home Affairs: Sub-committee on Race Relations and Immigration—subject: the Chinese community in Britain. Witnesses: Department of Health; Department of Education and Science (room 6, 4.15 pm). *Environment*—subject: acid rain. Witness: Central Electricity Generating Board (room 20, 4.30 pm). Treasury and Civil Service—subject: Head of the Government Accountancy Service. Witness: a Government minister (room 15, 4.30 pm). Public Accounts—subject: building maintenance expenditure. Witness: Mr G. Manzie, Property Services Agency (room 16, 4.45 pm).

TOMORROW

Commons: completion of consideration in committee of the Local Government (Interim Provisions) Bill.

Lords: Capital Transfer Tax Bill, second reading. Food Bill, third reading. Road Traffic Regulations Bill, report. London Regional Transport Bill, committee. Trade Marks (Amendment) Bill, third reading. Cycle Tracks Bill, second reading.

Select Committees: Education, Science and Arts—subject: prison education. Witnesses: Prison Department officials (room 16, 10.00 am). Defence—subject: statement on the defence estimates, 1984. Witness: Mr Michael Heseltine, Defence Secretary (room 16, 4.45 pm).

WEDNESDAY

Commons: Debate on an Opposition motion on the Government's decision to bring U.S. cruise missiles to the UK. Motion on EEC document on fisheries. Second Reading, Mental Health (Scotland) Bill. Opposed private business after 7 pm.

Lords: short debate on a motion to call attention to the state of judicial procedure in Zimbabwe, and in particular to the imprisonment of Bishop Muzorewa and to the need for the Government to make representations for his release. Short debate on the need to increase trade with developing countries to stimulate production, the purchasing power of the Third World and to reduce world poverty. Dangerous Vessels Bill, committee. Unstarred question on the transfer of prisoners to Northern Ireland.

Select Committees: Welsh Affairs—subject: The EEC and dairy farming in Wales. Witnesses: National Farmers Union; Farmers Union of Wales; Milk Marketing Board; Mr Nicholas Edwards, Welsh Secretary (Room 18, 10.00 am). Agriculture—subject: The effect of feedstuff prices on the UK pig and poultry industries. Witness: National Farmers Union (room 8, 10.45 am). Defence—*subject: statement on the defence estimates 1984.* Witnesses: Defence Ministry officials (room 16, 10.45 am). Trade and Industry—subject: British Leyland. Witnesses: BL representatives (room 15, 11.30 am). Social Services—subject: community care, with special reference to the adult mentally ill and handicapped. Witnesses: National Schizophrenia Fellowship; Richmond Fellowship; Mental Health Foundation (room 21, 4.15 pm). Treasury and Civil Service Sub-committee—subject: acceptance of outside appointments by crown servants. Witnesses: Capt Michael Tudor-Craig; Wing Comm. John Waterton; Maj Gen H A J Sturge; Air Comm R J Spiers (room 6, 4.15 pm). Employment—subject: the work of the Department of Employment Group. Witness: Mr Tom King, Employment Secretary (Room 15, 4.30 pm). Environment — subject: acid rain. Witness: Friends of the Earth (room 20, 4.30 pm). Defence—subject: statement on the defence estimates 1984. Witness: Mr Michael Heseltine, Defence Secretary (room 8, 4.45 pm).

THURSDAY

Commons: Completion of re*maining stages of the* Local Government (Interim Provisions) Bill.

Lords: Rating and Valuation (Amendment) (Scotland) Bill, report. Agriculture and Horticulture Grant (Variation) Scheme 1984. Motion for approval.

Select Committee: Energy—subject: energy research, development and demonstration in the UK. Witness: Mr Peter Walker, Energy Secretary (room 8, 4.15 pm).

FRIDAY

Commons: House adjourns for the Whitsun recess, returning on Monday June 4.

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Monday May 21 1984

Creating jobs in Europe

Unemployment is nearly 11 per cent in the European Economic Community and shows no sign of coming down, despite the beginnings of economic recovery. There is therefore every reason to question whether existing economic policies are the right ones. Last week, a group of academic economists, led by Professor Richard Layard, argued in a paper presented to the Centre for European Policy Studies that European governments should unite in a temporary fiscal reflation. The object of the exercise, as with so many well-intentioned reflations in the past, would be to get the European economies back on a trend growth line, this time the one established in the 1970s.

Fiscal reflation

Once Europe is back on its old growth path, the argument goes, governments could take their feet off the fiscal accelerator. Since the reflation would be explicitly temporary, financial markets would not get alarmed. Since it would be concerted, the balance of payments problems that scuppered President Mitterrand's go-it-alone dash for growth in 1981-82 would be avoided.

It is true that a concerted reflation would have a much greater chance of success than individual action by any one EEC country: the import dependence of the EEC as a group is much less than that of its constituent parts. But why is fiscal reflation desirable now?

Action is needed, the authors claim, because on current projections, output per workers is expected to grow as fast as total output, so that unemployment will not be dented. Moreover, this unemployment rate is far above the rate consistent with stable inflation—the Layard group claims that Europe's non-accelerating inflation rate of unemployment (the "nairu") is about 7½ per cent.

However, the nairu is a will o' the wisp: there are so many problems associated with its calculation that nobody can sensibly claim to know even its historical value—let alone its value today.

More important, while fiscal reflation will raise aggregate demand, there is no guarantee that it will raise output permanently, still less that it will raise output faster than output per worker.

The timing of the Layard plan is also questionable: it arrives just as clear signs of economic recovery are emerging. At this stage in the cycle there is a danger that fiscal reflation could do little more than raise inflation.

How would the public cash be spent? There are three suggestions: increased spending on public sector infrastructure, and subsidies for private investment and employment. There is a case for more infrastructure spending in certain circumstances, and a case for experimenting with some form of temporary employment subsidies, although how public largesse can create jobs that are viable in the longer run is questionable. But the notion of a subsidy for private investment seems particularly inappropriate, when the main worry is that productivity growth will prevent any reduction in unemployment. It runs exactly counter to the present British Government's thinking, which is to remove the excessive bias towards labour-saving investment.

The authors might have done better to concentrate on microeconomic obstacles to higher employment. Indeed, the best part of the report is its uncompromising condemnation of work-sharing as a solution to unemployment. The point is that if the hours worked by each person are reduced there is no guarantee that the total amount of work to be done would stay the same. Instead, real hourly wage rates might rise and output fall.

Alternatives

Many industrialists will see much virtue in the alternative prescriptions for reducing unemployment contained in a commentary on the Layard report by Professor Juergen Donges of the Kiel Institute. Professor Donges argues that unemployment remains much higher in Europe than in America because labour markets are more rigid, financial markets less flexible and new enterprises harder to create.

Instead of a concerted fiscal reflation, Professor Donges would rather see in Europe a concerted attempt to unclog market mechanisms. More jobs in Europe are likely to await reduced job security, reduced labour costs (non-wage as well as wage) and less generous unemployment benefit. The political obstacles to such changes are considerable, but policymakers should concentrate more on proving structural causes of high unemployment than on fine-tuning aggregate demand.

The opposition's role in Bonn

The party congress of the West German Social Democrats which today limps into its fifth day at Essen should have been an historic occasion: the first regular meeting since the party lost power in Bonn in 1982 and the farewell to politics of Herr Helmut Schmidt.

It was not. In laying down his party offices, Herr Schmidt appealed to his comrades not to abandon the pragmatism of office for opposition dreams of world improvement. His appeal went as unheeded as his vigorous support for Nato nuclear missile policy at the Cologne party congress last November.

Many Social Democrats, including perhaps Herr Willy Brandt, 20 years party chairman, seem to believe they could be back in power before long as Chancellor Helmut Kohl's Government lurches from one small scandal to another with a sort of genial innocence.

Failure

This is neither likely nor desirable. The Essen party congress has failed to provide coherent programmes for defence or economic policy. It was a full ten years between the Godesberg Programme of 1959, which bade farewell to dreams of German reunification and a welcome to the free market, and Herr Brandt's election as chancellor in 1969. There is no hurry whatever to revise the Godesberg Programme provided that at the end the Social Democrats have a firm notion of where a cramped and exposed country should go in the 1990s.

In security policy, "the party of the thousand Clausewitzes" so hacked about the executive's motion as to make it partly incomprehensible. The motion opens with a commitment to alliance membership and ignores demands from the Left for partial unilateral disarmament, "social" defence or an end to the Nato policy of "flexible response." However, the large majority for it was achieved at the expense of a resentful tone towards the U.S. and much fudging. One section appeals for both maintenance and abandonment of deterrence, another calls for a higher nuclear threshold without extra spending on conventional defence, while yet another demands of Nato "a structural inability to attack"—which suggests a new generation of tanks without forward gears.

The task of finding a new strategy is not easy. Those in Paris or Washington who have wrung their hands at the SPD since its rejections of the missiles last November might bear in mind that it is not the fault of the Social Democrats that West Germany would scarcely survive either nuclear or conventional exchanges. The entire alliance is talking of raising the nuclear threshold and the Essen congress did, at least, defeat a motion to freeze defence spending.

In economic policy, the party has swallowed much of its hostility to private broadcasting and the "technologies of the future," while drifting between free market and dirigist principles. Like the UK Labour Party confronted with the miners, the SPD cannot find the full-blooded support for the engineering workers' strike action that its traditions might suggest.

Like Labour, the Social Democrats may need years in opposition to decide where their new constituency lies: among the young protestants of the "peace movement" or the Catholic workers disgruntled with the Kohl Government they voted into power; amid the profoundly anti-modern voters of the Greens or a new class of modern-minded technicians Herr Brandt has discovered.

Ambiguities

The Social Democrats are right to seek to consolidate power outside Bonn, in town halls and the *Laender*, but surely wrong to build a majority with the Greens in the state of Hesse while murmuring about a Grand Coalition with the Christian Democrats in Berlin.

Such ambiguities are central to the nature of Herr Brandt, who was re-elected on Sunday for another two years as party chairman. Until a new generation works through to the top, above all politicians with the economic ability of a Karl Schiller or Helmut Schmidt, the Social Democrats should make the best of opposition.

BRITISH CORPORATE TAXATION

Did the Budget really help?

By Michael Prowse

TWO MONTHS after Mr Nigel Lawson's maiden Budget, finance directors, stockbrokers, accountants and tax advisers are still attempting (and largely failing) to fathom its full implications.

Although this year's Finance Bill is packed with complex and controversial legislation, the Chancellor's radical revision of corporation tax is hogging the limelight. There is intense speculation about its short and long-run effects—for individual companies, for industrial sectors and for the economy as a whole.

All companies have gained in at least one respect—through a reduction in uncertainty: Mr Lawson's medium-term approach means that, for the first time, finance directors know what the rate of corporation tax will be several years in advance. This is a luxury: until this Budget, chancellors announced the rate of corporation tax retrospectively—companies were in the position of not knowing at what rate the profits earned in the given year would be taxed.

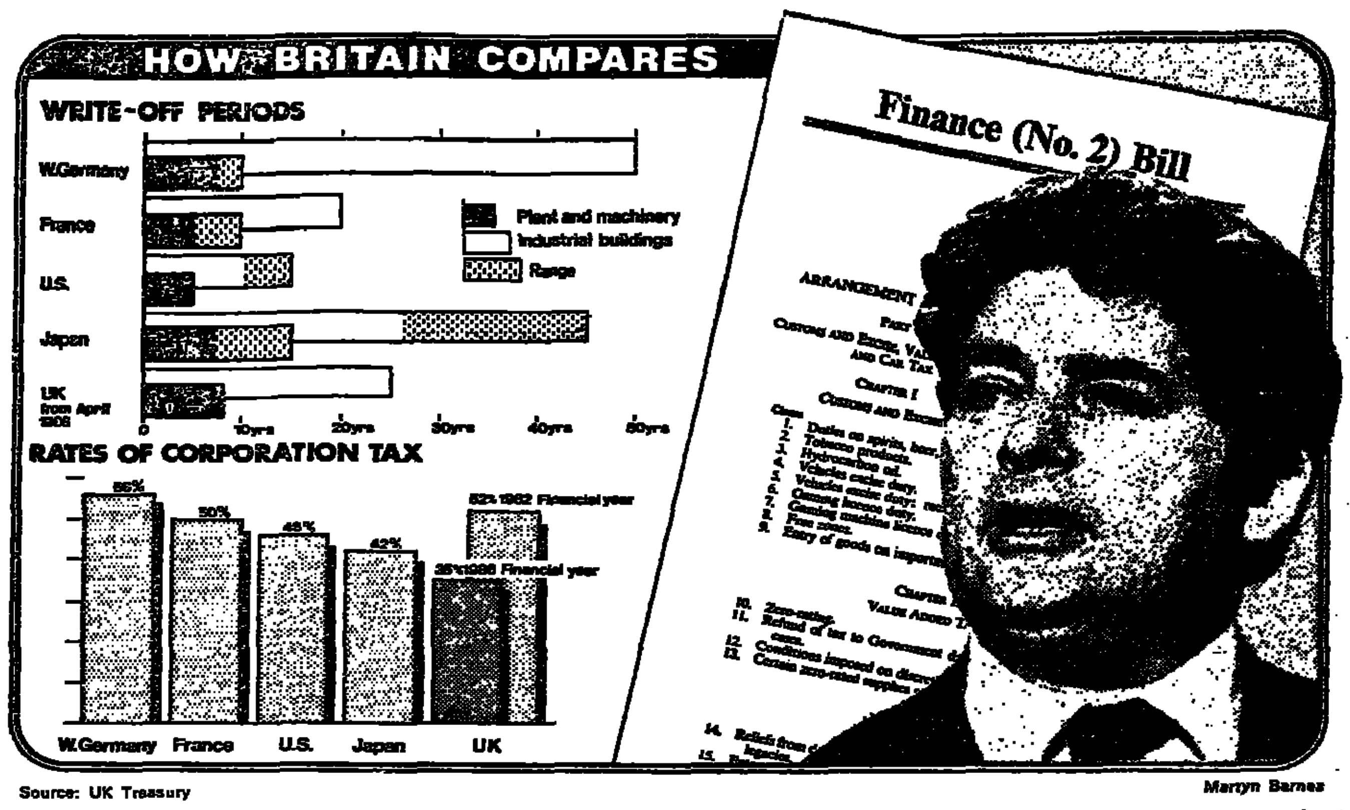
All companies potentially lose because the Chancellor's changes mean there is now no protection against inflation in the corporate tax system. Many finance directors are less sanguine than Mr Lawson on the outlook for inflation and regret in particular the abolition of stock relief. This gave companies relief for rises in the value of inventories that merely reflected inflation. The Treasury argues that as inflation falls further the value of the relief would have declined.

Fair enough, but then why scrap it? So long as inflation does persist, it serves a purpose — it prevents the taxation of illusory profits. Its abolition makes the tax system more, rather than less, distortionary.

Less easy to appraise is the impact of the phased withdrawal of first-year capital allowances (presently 100 per cent for plant and machinery) which are being "balanced" by a progressive reduction in the rate of corporation tax from 52 per cent to 35 per cent in 1986. But several general points can be made.

First, companies whose investment is high relative to their profits will be relatively penalised. One estimate suggests that unless pre-tax profits (before depreciation) are more than two-and-a-half times planned investment, a company will be worse off. So mature companies, with little desire or ability to grow, will tend to gain at the expense of young firms trying to expand.

Second, as Mr Malcolm Gammie, director of accountant Thomson McLintock's national tax office, points out, "to hear Mr Lawson speak you would scarcely think unincorporated businesses existed in Britain." Unincorporated companies lose the first-year investment allowances but gain nothing from the reduced rate of corporation tax, since proprietors pay income, not corporation tax.



Source: UK Treasury

Martyn Barnes

The unincorporated businesses that are trying to expand and whose investment is therefore high relative to their profits will suffer on both counts.

It is often thought that small firms are the most likely to create new jobs in a mature economy; in the U.S. a majority of the 20m new jobs created in the past decade have been in small firms.

Mr Lawson's tax changes are intended to create jobs by persuading companies to substitute labour for capital, but there is no certainty that this will happen. Mr Alan Clements, finance director at ICI, for example, says he "very much doubts that the tax changes will encourage us to employ more men and less machines."

Many less sanguine than Mr Lawson over inflation . . .

Companies can also expect to benefit from the Budget through a windfall gain on existing capital equipment. When installed, the equipment attracted tax relief at 52 per cent but from now on the profits it generates will be taxed at lower rates. However, to the extent that existing plant is made more attractive than new equipment, firms' propensity to invest may fall.

There has been much discussion also about the extent to which the Budget will speed up investment: spending on plant in the next two financial years years will attract favourable capital allowances (75 per cent and 50 per cent) yet much of the profit it generates will be taxed at only 35 per cent. Beyond 1986 companies will face the same tax rate but get only a 25 per cent annual writing-down allowance.

However, the speeding up may have been overstated. The Confederation of British Industry's post-budget investment survey did not pick up a surge of planned new investment. And some big companies regret they cannot alter their investment plans quickly enough to exploit this two-year "window of opportunity."

Mr Alan Willingale, group taxation manager at BP, admits it would be "ideal if we could cram the next five years' investment into two" but reckons it is impossible. Mr Clements at ICI agrees: "Control over cash has been crucial to the turnround of our business; we can't loosen up now because of a temporary tax advantage."

What impact will the tax change have on different sectors of the economy? The corporate tax burden will clearly be shifted from labour-intensive to capital-intensive firms, in other words from service industries to manufacturing. This may be good for jobs but, given Mr Lawson's recent concern about the long-term decline of North Sea oil output, its motivation has been questioned.

Britain needs to foster a revival in manufacturing: squads of extra hairdressers, garage attendants and waiters will do little for the balance of payments because they do not contribute to exports. It is the traded-goods sector that must revive if Britain is to pay its way.

At a still more micro level, three sectors claim to have been hit particularly hard: shipping, oil, and banks.

Before the Budget, British shipping groups were optimistically lobbying for an increase in free depreciation (from 100 per cent to 140 per cent) to keep them internationally competitive. They were dumbfounded that Mr Lawson made no exception for them.

There is little case on tax grounds for special treatment (good taxes should apply universally), yet as Mr Alan Kelsey, shipping analyst at the stockbroker Kitcat and Aitken, admits, the industry's rivals abroad do benefit from all manner of subsidies, and the Budget has widened the gap.

Oil companies are also unhappy about the Budget. While supporting the basic philosophy of the corporate tax upheaval, Mr Willingale at BP argues that his company will lose out on two counts: it is capital-intensive and the phasing out of first-year allowances will adversely affect its North Sea activity.

Big oil companies have been willing to develop small, marginal North Sea fields (and thereby create more tax revenue for the Exchequer) partly because the associated capital allowances could be used elsewhere to reduce the taxation.

There was intense speculation before the Budget that a new tax would be slapped on Britain's profitable clearing banks. In effect, the Chancellor has achieved this without resorting to a new financial services tax. The withdrawal of first-year allowances has clobbered their leasing business. In recent years, because manufacturing industry has seen so few profits, it has been unable to exploit capital allowances (having nothing to set them against) and banks have bought assets, leased them to manufacturers, and shared the allowances.

The banks expected to defer tax on income from leasing indefinitely through new capital allowances—and so did not set aside enough to cover their notional liability. In total, Britain's clearers have had to make extra provisions of about £1.8bn (roughly equivalent to their 1983 earnings).

Finance directors a little schizophrenic about the changes

Some brokers argue the long-term effect of the tax changes will be to depress investment and reduce Britain's potential capital stock. The magnitude of the effect depends on inflation and on how firms finance the investment.

The stockbroker Phillips and Drew, for example, argues that 15 per cent more profits will have to be made on a typical marginal investment project under the new tax system in order for the project to remain as attractive as before.

Finance directors seem a little schizophrenic about Mr Lawson's changes. Most appear to accept the logic of trying to create employment by raising the cost of capital, yet few seem to regard their own companies as much better off as a result of the new regime.

Of course, there are exceptions. Groups like Rio Tinto-Zinc with a large overseas content are clear winners, since they will pay extra tax on repatriated profits less often (because the UK tax rate will less often exceed the rate paid abroad) while the withdrawal of capital allowances is here immaterial.

But what of the underlying logic for the new regime? Since the Budget, all kinds of stance have been adopted. As so often, the CBI supports the broad thrust but worries over the details. It thinks that capital allowances should be withdrawn at a more leisurely pace, yet is happy enough about the timetable for reducing corporation tax rates. It would like to see a 25 per cent straight-line writing-down allowance for plant and machinery. This would mean fixed assets were written off in four equal chunks over four years.

Mr Lawson's "reducing balance" approach is more complex: each year 25 per cent of an asset's remaining value is written off, a process that never ends. A straight-line system would leave Britain more competitive internationally (see chart).

Mr Roger White, senior tax partner at accountant Peat, Marwick Mitchell, reckons that "looking backwards" a 25 per cent reducing balance allowance may be "roughly equivalent to commercial depreciation." But looking forward, "rapidly changing technology suggests assets may become obsolete somewhat faster." Mr White also echoes concern over whether a long-term structural reform of corporation tax should be based on the assumption that inflation is down for good.

Some fiscal experts are openly critical of Mr Lawson. According to Mr John Kay, director of the Institute for Fiscal Studies, the Budget was encouraging only because it showed "what an enormous constituency there is for tax reform." The Chancellor is taking Britain's tax system in a direction diametrically opposed to that advocated by the IFS since the publication of the Meade report in 1978. That advocated an extension of 100 per cent first-year allowances as one step towards a fully fledged "cash-flow" corporation tax.

If inflation stays low, Mr Lawson's changes will reduce the distortions of the present system, but a cash-flow tax, theoretically, could do better still: pre- and post-tax returns would be equal however a company financed its investment and whatever assets it bought. It would compensate automatically for inflation. Most importantly, it would not impose tax bills on companies, apparently justified by historical-cost profits, which they cannot pay because of a lack of liquidity.

The broker W. Greenwell has pointed out that the Budget changes may well impose severe strains on corporate liquidity in 1985 and 1986. Any tax based purely on profits runs this risk. Some experts conjecture that, by acting swiftly, Mr Lawson may have overlooked the better way of reforming company taxes.

Men and Matters

Van Lennep leaves OECD

Amid the usual strife over debts, interest rates and unemployment, ministers from 24 member countries at last week's meeting of the Organisation for Economic Co-operation and Development were at least unanimous in their tributes to Emile van Lennep. The 69-year-old Dutchman is finally leaving OECD at the end of September after 15 years as secretary-general.

With the departure over the last few years of Johannes Witteveen from the IMF, and Jelle Zijlstra from the Bank for International Settlements, van Lennep is the last member of the Dutch trio who were in charge of the main international economic organisations during the 1970s.

Still foreful enough to win a wrestling match with any of the world's finance ministers, the bull-necked van Lennep emerged from the final sessnon last week looking a good deal more cheerful than the somewhat tired communique.

After one and half decades spanning the transition from fixed to floating exchange rates, two oil shocks, and half a dozen U.S. Treasury Secretaries, he says simply: "I'm looking forward to a change."

Van Lennep was especially pleased by agreement last week on his initiative for a fresh attack against protectionism; and the secretariat is in the vanguard of those preaching the new jargon word of "flexibility" in labour, capital and manufacturing markets to coax along economic recovery.

If the Americans now agree that their OECD membership fees are worth paying, agreement on van Lennep's successor has been almost as difficult to achieve as accord over U.S. interest rates. He stayed on for another term in 1982 after the Americans and Europeans reached stalemate in a battle over opposing choices.

But without dissent, the job will now go to Jean-Claude Paye, a 49-year-old senior official at the French Foreign Ministry, and a former close adviser to Raymond Barre.

"That's MCC mate—where do you expect us to go when the Soccer season's over—Bolsover ?"

Bonn chance

Three years ago, Helga Steeg was a much-fancied candidate to succeed van Lennep. Now the top West German civil servant will take over instead from her compatriot, Dr Ulf Lantzke, as head of the OECD's offspring, the International Energy Agency.

Steeg has become a redoubtable figure in the Bonn bureaucracy. She is one of a handful of women who have made it anywhere close to the top of politics or government in her country. And, in a city which has drawn most of its population from other parts of Germany, she is that comparative exception: a Bonner, born and bred.

When Steeg was born there, nearly 57 years ago, Bonn was still only a compact and pretty university city on one of Germany's dorsal railway lines. She studied law in Bonn before joining the economics ministry in 1955. Apart from a few brief intervals abroad, she has stayed there ever since; for the past 11 years as head of the ministry's external economics and development aid division.

Her IEA appointment is by no means to be regarded as a consolation prize. And with OPEC—and oil in general—long overdue a comeback in the international news, much may be heard of Steeg sooner rather than later.

Marathon man

Professor Bryan Carsberg's recreation is running. He has run in two of the London Marathons—though not this year's—and his best time is a respectable 3hrs 41mins.

That is exactly the sort of energy and endurance that may be needed to keep up with the game when he becomes director-general of the Office of Telecommunications, and referee in Britain's new liberalised and privatised industry.

Oftel will be expected to keep a close watch on British Telecom which still dominates Britain's telecommunications. And like other referees, Carsberg may find himself at the centre of many controversies, the most unpopular man on the pitch.

Compared with the Federal Communications Commission in the U.S. Oftel's resources will be minute. Most of Carsberg's 50 staff will be civil servants, and they will be dealing with BT negotiations who have often in the past run rings round the Department of Trade and Industry.

But Carsberg himself is well qualified to test if BT is abusing its effective monopolies and cross subsidising new competitive activities.

Currently Professor of Accounting at the London School of Economics and director of research at the Institute of Chartered Accountants, Carsberg is perhaps best known for his involvement in inflation accounting standards both in the UK and U.S.

His introduction to telecommunications came as one of the "three wise men" who acted as independent advisers to the DTI on such esoteric issues as value added network services on telephone lines and cellular radio.

Pennock's patch

Lord Pennock is to be the first Brit to chair Unice, the European employers' body, since its foundation 26 years ago. He will succeed Guido Carli, a former minister and Governor of the Bank of Italy, on June 7.

It is, literally, an unrewarding job—there's no salary—and it is likely to be figuratively unrewarding as well. On the day he takes over, its constituent members—the business confederations of all the EEC member states—are expected to agree a cut in its budget of £1.2m a year, and in the 30 staff employed in Brussels.

Pennock, 63, has trimmed flab before at BICC, the cable and wire company, where he is executive chairman until the end of this year. As a former chairman of the CBI, (1980-82) he knows the workings of Government.

He can be gruff with Governments at times: he called the 1981 budget a "kick in the teeth" to business while he was chairman of the CBI; and he once courted Prime Ministerial disfavour by retailing the story, in Mrs Thatcher's company, of how she had been thought too pushy by an ICI recruitment panel, and rejected. (She turned the tables on him by suggesting that if she had been accepted, she might have wound up as chairman of the CBI.)

Europe's business voice is supposed to be growing stronger (in spite of economies); and Pennock will be expected to speak up against EEC plans for more industrial democracy, more protection for part-time workers and more regulation of business.

Observer

THE ARTS

Obituary/Sir John Betjeman

Anthony Curtis

John Betjeman, who died on Saturday at the age of 77, was a schoolboy of 12 at the end of World War One. He was part of that brilliant generation who were undergraduates in the 1920s. The sense of Armageddon escaped by a narrow shave had a formative influence upon their imaginations. It gave them a sharp sense of irony, a heartlessness beneath the surface charm and sense of fun, a compulsive need to make connections with the Old England of before the war. This had been rigidly stratified socially and had been free of such benefits, dubious, in their eyes, as the internal combustion engine, and higher education among women.

One of Betjeman's earliest prose books, *An Oxford University Chest* (1938), has a distinctly "sexist" tone that seems at odds with his later work; and it contained this avowal: "To escapists, to arty people like the author of these pages, the internal combustion engine is, next to wireless, the most sinister modern invention. It booms overhead with its cargo of bombs, it roars down lanes with its cargo of cads, it poisons the air, endangers the streets, deafens the ears and deadens the senses. That its most successful manifestation in England should be at Oxford, of all places, passes belief."

Betjeman's innate artiness had begun to flower when he was a schoolboy at Marlborough under the influence of two contemporaries who were both to become eminent art-historians, Ellis Waterhouse and Anthony Blunt. It found fertile soil later at Oxford where he read English at Magdalen College. Henry Green (who had already written his first novel while at Eton) was a fellow-undergraduate and noted the artiness in Betjeman. "He caught us all on the hop," Green once said to me, "pointing out the beauty of Victorian buildings and paperweights, and that sort of thing."

Green and Betjeman were among the first batch of undergraduates to receive tuition from C. S. Lewis. "After Betjeman and I, Lewis turned to Christianity," said Green. Both of them left Oxford prematurely without taking a degree. In both cases the shadow of a father at the head of a prosperous family business loomed over their lives. Green vanquished it by actually joining the business, while continuing to write novels in his lunch-break and on holiday. Betjeman could not accept that solution, as he explained in the long autobiographical poem *Summoned by Bells* (1960). For him the escapism, and the conservationist artiness, had to become the profession until such time as many years later, he could live by his poetry.

In 1933 he made his first impact upon the reading public in an escapist's role with a volume called *Ghastly Good Taste*. But he had also emerged to a tiny circle of admirers as a poet. In 1931 *Mount Zion* appeared from the James Press, a venture financed by the millionaire Edward James whom he had known at Oxford. It was another six years before his next poetic volume *Continual Dew* surfaced, this time from John Murray, who was to be his publisher for the rest of his life.

It made a somewhat bigger splash with the aid of a number of other talents. E. McKnight Kauffer designed the dust-jacket, Osbert Lancaster the decorative borders. Lord Longford (not the current one) corrected the proofs. Lord Berners was the dedicatee. Mr C. S. Lewis was thanked "for the fact on page 256." However, there was no page 256.

The familiar notes of celebration of a simpler style of life and worship in the past and a loathing of present tendencies were firmly, even crudely struck.

Come, friendly bombs, and fall on Slough
It isn't fit for humans now...

At the same time he showed his talent for what might be called the narrative-miniature, the closely observed, short, ironic poem that frames one dramatic episode, often taken direct from life and often culminating in death or disaster, as in "The Arrest of Oscar Wilde at the Cadogan Hotel."

The 1930s and 1940s were difficult decades for Betjeman professionally. He became a film correspondent, lunching Gainsborough Girls at the Cheshire Cheese in Fleet Street, an architectural correspondent, a novel-reviewer, and wrote any piece of literary journalism that would keep body and soul (and family) together, while the steady, glittering stream of verse continued to flow: *Old Lights for New Chancels* (1940), *New Bats in old Belfries* (1945), *A Few Late Chrysanthemums* (1954).

Some forays into documentary films on old buildings revealed his remarkable talents as a performer which were to come fully into their own in the age of television after the Second World War. Meanwhile, with champions like Auden, his verse was starting to attract a much wider public than hitherto. His poems of infatuation with large-limbed, masterful middle-class tennis-playing English heroines found an appreciative response among a new khaki-clad generation, as did his satirical eye for tell-tale detail and his obsession with the imminence of death in the midst of ordinary life.

But it was not until after the war that he became a poetic best-seller to rank with Tennyson and Scott. His *Collected Poems* (1958) sold in its thousands; at the same time he had emerged as the patron saint of the conservationist movement, the editor of Collins *Guide to English Parish Churches* and as a familiar figure on the television screen. The programmes which he wrote and narrated for Edward Mirzoeff, notably *Metro-Land*, were acclaimed as masterpieces of the small screen.

Here, as elsewhere in his work, his secret lay in the sharpness of his observation of the particular, opening up revelatory vistas beneath the bland exterior. In his most famous poem, for example, A Subaltern's Love Song, about Joan Hunter Dunn on the night of her engagement, we are told that "*She drove* (my italics) to the club in the late summer haze" and when the couple arrive there, they spend the whole evening in the car park while the subaltern plucks up courage to pop the question. "And here on my right is the girl of my choice." In other words, Joan was firmly in the driving-seat. It is safe to infer she remained there for the entire duration of the marriage.

Betjeman was awarded the Queen's Gold Medal for Poetry in 1960; he was knighted in 1969 and made Poet Laureate in 1972. By then he was a sufferer from Parkinson's Disease and his poetic gift had dried up. It is for his earlier poetry, often written in an affectionate spirit of parody or pastiche, that he will be long remembered.

Arts and the disabled

The Committee of Inquiry into the Arts and Disabled People is interested in hearing from people with *disabilities* about the difficulties they have experienced in pursuing artistic interests, and whether they have found ways of overcoming the problems.

Richard Attenborough, chairman of the committee formed to improve the situation, can be reached at Nuffield Lodge, Regents Park, London, NW1.

Architecture

Colin Amery

Ornament and ostentation

The Rococo exhibition, at the Victoria and Albert Museum until the end of September, is a rare event. It is not just an assembly of 500 objects but an exploration of one idea in the visual arts that was applied, in its time, to every possible area of endeavour. From architecture to silver, from printing to sculpture, the rococo flourished in an England that was prospering in the mid-18th century. The wit and elaboration of the style depended on the expenditure of large sums of money—it was a style for the few.

A style like the rococo makes an ideal subject for a serious art-historical exploration and it is saved from academic tedium by the sheer exuberance of the objects on show. There should be no doubt that this is a very serious attempt, and a successful one, to define what the rococo was in England. For too long it has been regarded as a Continental extravagance, something probably French and definitely frivolous.

The approach to the design of the exhibition is anything but frivolous. Brian Griggs has adopted a totally simple formula; grey walls, simple screens that allow these eccentric objects to show their paces. It is not a memorable exhibition design, rather a design that enables you to remember the objects, and many of these are stupendous.

The rococo style derives from *le genre pittoresque* and has been described as a style that broke the rules of restraint in decoration and developed its own bizarre life. A candlestick design by Juste Aurèle Meissonnier of 1728 shows the style very clearly. Three prints are necessary to show its asymmetry and the main stem and the base are a flowing mass of ribbed decoration resembling *rocaille*.

It is this 17th century word, *rocaille*, that was coined to describe the kind of artificial rocks made for grottoes and false caves that were filled with shells, fish and other strange cave-dwelling creatures. In the exhibition catalogue the outraged reaction of a contemporary, the Abbe le Blanc, to these decorative excesses also

Invitation to an 18th century concert. The V. & A. is holding a 20th century equivalent as part of a series on concerts to mark its Rococo show

reveals the nature of the style. "They heap cornices, bases, columns, cascades, rushes and rocks, in a confused manner, one upon another; and in some corner of this chaos, they will place a cupid in great fright, and have a festoon of flowers above the whole. And this is what they call designs of a new taste."

Perhaps it is because we have lived through the worst excesses of Victorian kitsch that to our eyes the rococo is not as outrageous as it was in the early 18th century. But it is worth looking with a fresh eye at the extravagances of such things as the pier glass by Matthias Lock with its glorious collection of rustic trophies and a hare's head under a baldachino in the centre; or the sauce boat in the form of a plaice with a spray of sea weed for a handle; and the pair of mad monkeys sitting over the door from the great drawing room of Norfolk House.

The hints of China, the references to the grotesque make the rococo style an assemblage of much of the subconscious of 18th-century Europe. And it is not surprising that it was European refugees and invitees that made the style in England. Italian plasterers, Huguenot silversmiths, French draughtsmen all came to work in England for the growing market of the rich. It was Hogarth's Academy in St Martin's Lane and the local Slaughter's Coffee House that were the two centres of development for the new style.

At the centre of the exhibition is a model and a reconstruction of some supper boxes from the Vauxhall Gardens. It was here that Hogarth helped to arrange for the decoration of all the boxes with large pictures, where the great Roubiliac statue of Handel presided over the spontaneous and adventurous artistic entertainers. Turkish tents, rotundas and the spiky Gothic orchestra pavilion set in a formal garden represented the apotheosis of the rococo as a public art.

Much of what we see in the V and A is in fact from the private realm. In England rococo architecture was never built on any large scale and it is the furnishings, even the clothes of the patrons that we see. The silver and gold is outstanding, often actually given the textures of nature. The furniture is stylishly shown but it is not explained that the purpose of much of it was as display pieces. A patron would have one outrageous rococo piece of furniture in a relatively plain setting.

It may seem churlish to criticise a show that is so well conceived and holds together around an idea so successfully but I did miss the particularly English contribution made to the design of gardens and the often highly original garden buildings and follies. This was our special development of *le genre pittoresque*. Also I felt that there was room for more detailed views, perhaps photographs of some of the rococo interiors in England. This said, it is the objects that speak so clearly and the excellent catalogue is invaluable. This is the sort of exhibition that only the Victoria and Albert can do, and it is done very well. It is sponsored by Trust House Forte.

Cherevichki/Morley College

Rodney Milnes

Cherevichki (1885), known variously as *The Tsarina's Slippers* and *The Caprices of Oxana*, is Chaikovsky's most unexpected opera, a hearty, picaresque fairy-tale farce based on Gogol's *Christmas Eve* and packed with enough folk-based music to melt the heart of the sternest member of the Mighty Handful.

The eponymous imperial footwear — in fact high-heeled leather shoes—is the price demanded by the capricious village maiden Oxana for her hand in marriage to Vakula the blacksmith (the score is a revision of the earlier opera of that title). Vakula's mother is the local witch; amongst her many lovers is the Devil, who is tricked into transporting him to St Petersburg by air to acquire the *cherevichki* not from Catherine the Great herself, alas, Tsarist censorship being what it was, but from a court official.

Chaikovsky himself had a high opinion of the work—a rare enough occurrence—and with reason. It is prodigiously rich in melody and scored with characteristic pungency. The Devil's blizzard, the second-act finale (good thick soup), and Vakula's aria, much reprised, are mong the composer's happiest inspirations. The character of Vakula, a sort of butch Ukranian Albert Herring, is well drawn, and in the scene in which his mother entertains four lovers, hiding each in a sack as the next arrives, is wholly irresistible.

Incomprehensibly it has been left to Morley Opera to give *Cherevichki* its first staging in this country, though the presence in the audience of representatives from two national companies gives hope for the future: lavishly staged, this could be a smash-hit Christmas show. Lavishness is of course what Morley cannot afford, but Paul Brown's highly ingenious set—a little folk-theatre set centre-stage — provided the essential colour and suggested magic effects well.

There was some capable singing. Geraldine Arthur's beautifully warm soprano, if a little capricious of intonation at full stretch, did well by Oxana, and as Vakula Lazlo Swen fielded a strong, natural tenor. Kirsten Johnson (the Witch) enjoyed herself as much as the audience, and the whole cast projected Arthur Jacobs' snappy translation with admirable clarity. In the pit, Andrew Downie kept firm control of his occasionally unpredictable singers while relishing the orchestral possibilities of an endlesly colourful score. There is one further performance tonight

Mischiefs of Terpsichore

Clement Crisp

On the thin and sagging narrative thread of a ballet competition, Natalya Kasatkina and Vladimir Vasilyov of the Moscow Classical Ballet have devised a show-case of classical and not-so-classical party-pieces for their dancers. The framework — of jury, competitors, and various manic hangers-on — is radiantly naif in presentation, but on Friday night at the Dominion we sat through its laboured jovialities in order to catch something of the qualities of the Moscow artists.

These are displayed in a collection of well-worn pas de deux, with a couple of curiosities owed to the choreographic taste of Kasatkina and Vasilyov. This *Mischiefs of Terpsichore* is made supportable by the gifts of certain performers, the men of the troupe coming off rather better than the women. Stanislav Isayev, the Adam of *The Creation of the World*, is seen again to be a dancer of refined and bright talent, whether partnering the dizzying turns of Tatyana Paly (who produces quadruple *fouettés* with an ease denied most dancers trying to whip through singles) or partnering Ekaterina Maximova, in less than convincing form, in an odd balcony duet from the company's *Romeo and Juliet*.

The heroic Alexander Gorbatsevich is trapped in a *Homage to Fokine* that has him threshing about in disparate fragments of the master's choreography (somewhat inaccurate in step) in a rainstorm.

Viktor Kasatsky is also a victim of the weather: he is a Raskolnikov-figure in a snowstorm, suffering to part of Chaikovsky's fifth symphony and required to carry Olga Pavlova in a white leotard as a message of hope or despair, or maybe just frost-bite. But Mr Kasatsky, with his intense manner and marvellous face, convinces us of the worth of this otherwise unremarkable choreography from Vasilyov and Kasatkina.

And so it goes on. Codas from four celebrated pas de deux are whistled through in a cascade of spins and leaps; style seems too often sacrificed to technical show. The circus has come to town. The programme leaflet, which is a rich mine of misspellings and misinformation, promises, but does not deliver, some choreography by Kasyan Goleizovsky, and also proposes a choreographer by the name of Michael Pokin. Come to think of it, Mr Pokin could have brightened up the evening.

Antigone/Cottesloe

B. A. Young

In their production of *Antigone*, John Burgess and Peter Gill are celebrating an *act of devotion to Sophocles*. In the long run, it doesn't matter much how you dress the players in a Greek play, what kind of stage you put them on, how you have the choruses spoken. It is the words, and the delivery of the words, that make the play.

Here Alison Chitty gives us a bare floor of what might be polished rock, and a plain back wall pierced by a rectilinear doorway slightly embellished with a suggestion of stone building. The chorus is dressed in grey double-breasted suits, grey soft hats with black hands, and black shoes. They carry walking-sticks in their right hands, and when they sit down, they sit on plain kitchen chairs. They might easily be held to represent typical Greek businessmen of our own day taking their evening walk along the streets of Athens.

I don't know if it was this resemblance that put the idea into my head, but I thought Peter Sproule as Creon had a distinct look of one of the present-day Greek royal family, with his balding head, dark suit, stiff white collar. Jane Lapotaire as Antigone, Vivienne Ritchie as her sister Ismene, were young women from good Greek homes, the one in red, the *other* in black.

But once the performance began, there was no doubt where we were: we were in Thebes, and the gruesome legend of Antigone's condemnation for her loyalty to her dead brother Polyneices, with its bloody consequences, was rolling past us. The translation by C. A. Trypanis is stark and lucid.

Both speaking and acting are restrained. There is no attempt to make plain words into poetry, when the story was poetry enough. It was this restraint that made the evening so chillingly moving. We could have been hearing a television news reader tell us of some ghastly disaster. The emotion was injected into it by our own reactions.

Given such an approach to the play, Miss Lapotaire and Mr Sproule could not have been better. There was good speaking too by Ron Pember as the guard who tracks Antigone down, and by John Bailey as Teiresias with his grim prophecies.

Oh, Kay!/Chichester

Michael Coveney

George and Ira Gershwin wrote this 1926 Prohibition musical for Gertrude Lawrence, who was the first English actress to originate a role on Broadway and then play it in London. It was composed by the brothers to a story by Guy Bolton and P. G. Wodehouse and has all the period frippery of a disguised maid falling in love with an unattainable Long Island playboy, irate parents of the playboy's supposed fiancée, and choruses of suddenly manifesting bootleggers and flappers.

Kay is the sister of the silly ass Duke of Datchet — here given a different name, the Duke of Dumbarton, and the full insufferable silly ass works by Edward Hibbert — who is smuggling hooch on board his yacht just over the 12-mile limit. The romantic plot, which involves the shuffling and buying-off of rival brides so that Kay can land her man, is oiled by the disguised presence of another bootlegger, McGee, niftily portrayed by Geoffrey Hutchings.

The score is indeed full of good things, not just such well-known songs as "Someone to Watch Over Me" and "Clap Yo' Hands," but also such lesser-known gems as "Dear Little Girls," a mellifluous welcome-home item for the heart-throb, Jimmy Winter, from a houseful of available gigglers, including twins, and "Maybe," a fine romantic number for the lead couple. The book has been slightly tinkered with by Tony Geiss and Ned Sherrin, who introduce a white-tailed pianist with matching grand, who revovles through the action not to very much point or purpose. The design of Peter Rice echoes the idea, using the black Chichester floor as a piano top and some steps down from stage level as a large keyboard over which Jane Carr dangles her legs in a poignant rendition of the interpolated "But Not for Me."

Miss Carr's Kay is a determined, chipper girl, graduating from green bathing costume and yellow oilskins to roseate fulfilment via the maid's uniform. It is, as you would expect, a decisive and enjoyable performance. Even more interesting, however, is that of Michael Siberry as the langourous Jimmy, making a virtue of slow-wittedness and pointing his lines with the well-timed insouciance of either of the acting Fox brothers, James and Edward, both of whom he resembles.

The second half picks up with the highly enjoyable tap-chorus number, "Fidgety Feet," two fine songs for which Howard Dietz supplied lyrics, and a well-staged finale on board the yacht, with everyone pairing off and heading down to the Riviera. But too much of Ian Judge's eager, bustling production is a result of strain without style and a sort of pervasive, brittle desperation. The choreography by Lindsay Dolan is more serviceable than inspired.

A lunch scene is allowed to degenerate into awful pantomime camp, with Geoffrey Hutchings not only tossing the salad but wiping his nose on it, too. Hair styles and waist-lines are strangely unconvincing, and mobile (costumes by Peter Farmer). The sound system is, at the moment, distinctly tinny, but the difficulties of staging an intimate show like this on the cavernous Chichester apron must be enormous. I just wish there was more affectionate style about the evening and less frenetic grimacing. The sliding Perspex panels, trundling revolve and that pianist with his candles, revive bad memories of all those recent compilation cabarets.

Apart from the young leads, the smoothest work is from Terence Bayler as a fraught spy from the Revenue and from Josephine Blake as a long-lost wife, who will show a leg at the slightest provocation or the hint of a good tune.

Alastair Muir

Jane Carr

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Music

May 18–24

LONDON

Bach Choir and English Chamber Orchestra conducted by Sir David Willcocks, with soloists including Felicity Lott, soprano, in the presence of the Prince and Princess of Wales. Haydn and Mozart. Royal Festival Hall (Mon). (9283191).

Philharmonia Orchestra conducted by Vladimir Ashkenazy with Boris Belkin, violin. Weber, Shostakovich and Dvorak. Royal Festival Hall (Tue).

Lontano conducted by Odaline de la Martinez. Falla, Roberto Gerhard and Cristobal Halffter. Queen Elizabeth Hall (Wed). (9283191).

PARIS

Alain Marion, flute, Jeremy Menuhin, piano. Mozart, Schubert, Schumann, Roussel, Jolivet, Prokofiev (Mon). Radio France Grand Auditorium (524 1516).

Ensemble Orchestral de Paris, Jean-Pierre Wallez conductor and violin soloist, Gundula Janowitz, soprano: Bach, Telemann (Mon). Théâtre des Champs Elysées (723 4777).

Trio Lee-Bride-Bonfil: Haydn, Mendelssohn, Schubert (Tue). Salle Gaveau (563 2030).

Alex Lagoya, guitar. Mozart, Haydn and Mozart's Coronation Mass with Rouen's Ensemble Orchestral and soloists and singers from Saint-Eustache conducted by J.-P. Berlingen (Tue, 8.45). Saint-Eustache Church, Metro Les Halles (636 8542).

Paul Kuentz Orchestra: Mozart quartets for flute and oboe and trio for strings (Tue). Saint-Severin Church (633 8781).

Nouvel Orchestre Philharmonique conducted by Alexandre Myrat, Alain Marion, flute. Boieldieu, Koechlin, Ibert, Bizet (Wed). Salle Gaveau (563 2030).

Ircam – Ensemble Intercontemporain: George Lewis – a jazz musician treating a computer as his partner (Wed, Thur). Centre George Pompidou, Ircam Atelier (278 7995).

Orchestre National de France conducted by Seiji Ozawa, Kathleen Battle, soprano; David Rendall, tenor; Tom Krause, baritone; Radio France Choir, Haydn – Creation (Thur). Saint-Denis Basilica, Metro St. Denis (*524 1516*).

Radu Lupu and Murray Perahia, pianos. Mozart, Schubert, Schumann (Thur). Salle Pleyel (561 0630).

WEST GERMANY

Hamburg, Opera: A lieder recital with Tatjana Troyanos accompanied by Geoffrey Parsons. Mozart, Berlioz, Mahler, Berg, Ravel and Rossini. (Tue).

Berlin Philharmonie: Berlin Philharmonic Orchestra, conducted by Gary Bertini, with Gerhard Oppitz as soloist, Bruckner's 1st Symphony. (Wed).

NEW YORK

New York Philharmonic (Avery Fisher Hall): Erich Leinsdorf conducting, Leon Fleisher, piano. Roussel, Debussy, Ravel (Tue); Erich Leinsdorf conducting, Florence Quivar mezzosoprano, New York Choral Artists, directed by Joseph Flummerfelt and *Brooklyn Boys' Chorus*, directed by James McCarthy, All-Mahler programme (Thur). Lincoln Center (874 2424).

WASHINGTON

Pittsburgh Symphony (Concert Hall): André Previn conducting. Copland, Gershwin, John Harbison (Tue). Kennedy Center (254 3776).

CHICAGO

Chicago Symphony (Orchestra Hall): Claudio Abbado conducting, Chicago Symphony Chorus. All-Berg programme (Thur).

VIENNA

Vienna Boys' Choir, Chorus Viennensis conducted by Uwe Harrer with Peter Schreier, tenor, and Gottfried Hornik, baritone. Bach, Bruckner. Musikverein (Tue). (*658190*).

Music For Two Pianos with Jolanthe Seyfried and Ludwig Karl. Schönberg and Debussy. Musikverein, Brahms Saal (Tue).

South American Music Festival with Stan Getz. Konzerthaus (Tue). (721211).

Peter Schreier: Beethoven Lieder (Thur). Musikverein.

CARAJAS IRON ORE PROJECT

Brazil's enormous gamble

By Andrew Whitley in Rio de Janeiro

FROM 5,000 feet the bottle-green velvet of the jungle looks as if it has been savaged by a giant moth. A vermilion streak, straight as a dye across to the horizon, suggests that man has also been at work.

Circling lower, the outlines of the low Carajas hills, 350 miles south west of the old Amazon port of Belem, emerge from the immense carpet of trees. The moth-eaten parts become bare clearings of "Canga" —the rock rich in iron ore which first betrayed the existence here of mineral deposits —or else busy work camps and construction sites.

The Carajas iron ore deposits —at 18bn tons the largest and richest anywhere—were for years the Brazilian Government's calling card with the international banks, as well as its loan collateral. Seventeen years after their discovery, and three-and-a-half years after site work began, the project is finally approaching completion.

Moreover, Carajas will probably be completed at an overall price 20 per cent below the budget worked out at the end of 1981 with the World Bank, the project's most enthusiastic and faithful backer.

New figures presented to official foreign creditors recently put the final price tag at $3.6bn, down $900m on the original $4.5bn.

Instead of cost overruns, CVRD has cut spending

Instead of cost overruns, par for the course on major development projects, especially those in remote parts of the world without any pre-existing infrastructure, Companhia Vale do Rio Doce (CVRD) has successfully reduced its planned spending on Carajas—without cutting down on its scale.

For $3.6bn — an estimate which includes loan interest and working capital during construction, but excludes a $400m contingency allowance—Brazil will get an iron ore mine capable of churning out high grade ore for half a millenium, at its full rated capacity of 35m tons a year.

"It will, without doubt, be the biggest supplier of iron ore to the world market in future," enthuses Mr Tom Cheney, head of BP Minerals in Brazil.

For its money, Brazil also gets a 550-mile railway line across the south-east Amazon Region, virgin territory earmarked by the Government for colonisation and development, as well as a new, all-weather port on the South Atlantic coast, at Sao Luis, capable of handling ships of up to 280,000 dwt.

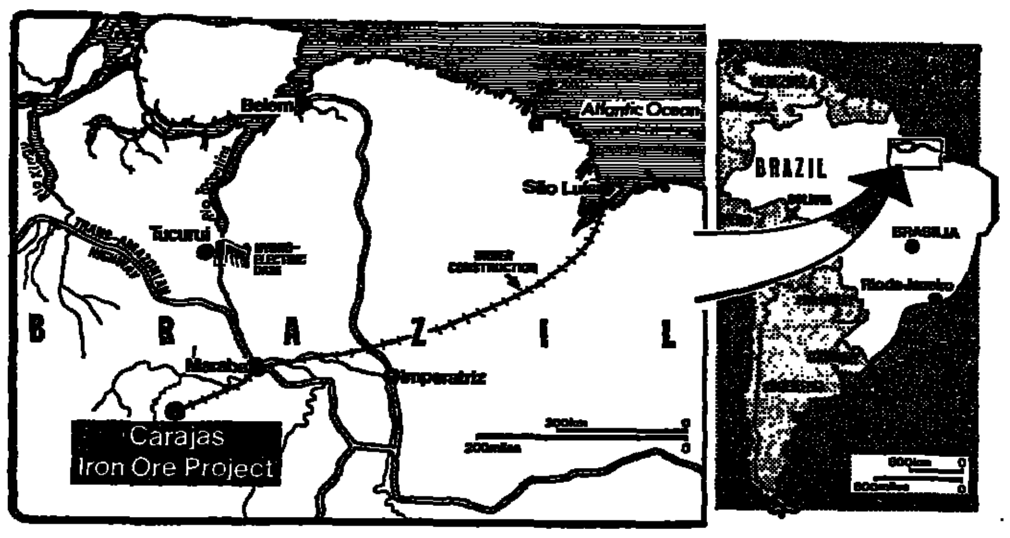
"Carajas is an outstanding example of effective project management," says, not immodestly, Sr Samir Zraick, finance director of CVRD, one of the world's leading mining companies. The Brazilian Government controls the company through its 56 per cent shareholding, with the remainder being held by investors on the Rio and Sao Paulo stock exchanges.

Few western mining executives would disagree with Sr Zraick's judgment. Whatever their views about the economic viability of the project—opinions vary, depending on their respective projections for world iron ore prices—they all agree that the Brazilian state company has done an excellent job.

Just over 12 months ago the CVRD board decided to postpone the planned start-up date by one year, to July 1986, because of the weak world market. Getting the timing right is critical. For if Carajas, which is entirely export-orientated, were to come on stream too early it would, at the very least, have a depressive effect on prices. As the Brazilian company is already the world's leading iron ore exporter, with direct sales last year totalling nearly 38m tons, it has to act carefully.

Output from its long-established mines in Minas Gerais state is to be run down, to preserve dwindling reserves —and make way for Carajas.

According to Sr Clovis Ditzel, the Brussels-based president of CVRD International, there is now no question of any further postponement. Long-term delivery contracts, of 14 to 15 years duration, for 25m tons per annum, have been signed. And the customers, led by Thyssen in West Germany and most of the major Japanese steel mills, might look elsewhere if there were further delays.



Graham Lever

The project will begin with an annual capacity of 15m tons a year and build up rapidly over the following 18 months to its full 35m-ton level. Earlier talk of expanding later to 50m tons a year is being played down.

As running costs are likely to be low by world standards, Sr Ditzel believes Carajas should be making an operating profit by its second year. However, no CVRD executive is presently prepared to answer the more critical question of when it will reach break-even point.

Much depends on the strength of the recovery underway in the western industrialised world. While the U.S. and Japanese steel industries may be picking up steam, Sr Ditzel is more concerned about the still uncertain outlook for what he says are the key price-setters for iron ore in Western Europe.

The total workforce, including sub-contractors, is now down to 5,200—expected to be its low point—compared with a peak of 27,500 in August 1982. While a considerable part of the lay-offs were a natural consequence of the construction cycle, some were undoubtedly due to the revision of the schedule.

Nonetheless, the project is still bang on its revised course. At the end of March, the computer print-outs from Sucar, the acronym for the Carajas Project Superintendancy in Rio de Janeiro, showed that overall physical execution had reached 63 per cent.

● The railway: responsible for nearly half the budget, it is the furthest ahead of all sections. Once the final span on the 1.5 mile-long bridge across the Tocantins River — the only major barrier on the entire route—is dropped into place in August, all the bridging work will be complete. The track laying gangs, meanwhile, have just crossed their half-way mark.

● The mine: based initially around the excavation of a single hill of almost solid ore and processing through three crushing and screening plants, it is a straightforward, but apparently well planned operation. Building a proper townsite and infrastructure such as the smart new airport, capable of handling commercial flights, have been recent concerns.

● The port site: designed to handle, eight ore trains a day each of 160 wagons, from 1988 onwards, it is deceptively peaceful at present. Most of the on-shore civil works and equipment installation are still to come.

The cost reductions CVRD is rightly proud of are partly its own doing: partly the result of initial overcaution by foreign lenders, concerned about the "Amazon factor" which has doomed several other ambitious ventures in the region; and partly an unexpected side-effect of the Brazilian economic crisis.

Based on its long experience of running a similar operation in south east Brazil, CVRD already had the management and technical skills to come up with a simple, but effective, design plan for the entire operation.

The "Amazon factor" proved, from the start, to be a red herring. Carajas, some 2,000 ft. above sea level, is an agreeable place to live and work, as far away from the green hell of schoolboy myth about the Amazon as it is possible to imagine.

Another factor keeping costs down was the intense competition among Brazil's major contractors for a slice of the work, at a time when almost all other development projects in the country were drying up.

"Carajas benefited from being in a buyer's market," said Sr Zraick. "In addition, we have a good reputation in Brazil (unlike most state companies here) for paying on time." But perhaps the greatest windfall for the dollar-earning mining company was the 30 per cent devaluation of the cruzeiro in February 1983. Subsequent mini-devaluations in line with inflation have also preserved CVRD's export competitiveness.

Floating interest rates on foreign loans did not affect Carajas as 90 per cent of its foreign borrowings were made at fixed rates. Some smart financial footwork, by borrowing in deutschmarks and yen, also helped reduce the effective interest rate CVRD is paying.

Instead of the original target of a 13 per cent return on investment, set by the World Bank, CVRD says, that lower world prices for iron ore have reduced this to 10 per cent, still reasonable for a major mining project.

Hopes of additional benefit rest on the cornucopia of other minerals—gold, copper, bauxite, nickel and manganese — all located within easy distance of the Carajas rail terminal.

However, the greatest concern of the World Bank throughout the life of the project has been the Brazilian company's internal cash-generating capabilities. For its 40 per cent equity stake, CVRD was expected to put up $1.82bn, based on the original cost estimate of $4.5bn. Half this sum is to come, by 1988, from the company's own cash.

To keep it in line, the World Bank imposed unusually strict controls on any new investment by the state company outside its Carajas commitments. And it insisted that the federal government take responsibility for any cost overruns.

In mid-1982 a critical assumption on the part of the World Bank was its "reasonable expectation" that the world market would be back in equilibrium when Carajas was originally due to come on stream, in the years after 1985. A rider was that prices would not fall because of the development.

Acid test on the world market drawing nearer

The acid test of those assumptions is drawing closer. For next summer Sr Ditzel and his colleagues will have to start negotiations with CVRD's customers on the prices they will pay for those contracted 25m tons of Carajas ore, for delivery commencing a year later.

Only afterwards will it be clearer whether Brazil's enormous gamble on Carajas is going to come off.

Lombard

Search for EEC cash limits

By Samuel Brittan

IS IT POSSIBLE to impose effective cash limits, as Governments have imposed on their expenditure at home, to the EEC Budget? There is, in principle, agreement among Community finance ministers that they can and should. When they met at Rambouillet the weekend before last they formulated a draft statement —not published, but generally available in Brussels, and they have set up a high level group of experts to try to formulate detailed guidelines.

The subject is of top political importance. For the settlement of the British budgetary contributions, the reform of the Common Agricultural Policy, and budgetary cash limits are part of a three-part package on which the heads of government still hope to do a deal at the next summit on June 25.

As part of this package, the UK would agree to an increase in automatic (so-called "own resources") contributions to the Budget from the present equivalent to a 1 per cent VAT rate, to 1.4 per cent. There will also be most likely a further increase to 1.6 per cent when the Community is enlarged. Indeed UK agreement to this increase if the other elements are agreed, is a foregone conclusion on which the British Government could not now go back without charges of "bad faith." Whether an independent-minded British MP should accept the whole deal or vote against it should depend far more on his assessment of the realism of budgetary cash limits than of the exact figure of the British budgetary correction.

Far too much of the public discussion has been on the UK budgetary correction and not enough on the increased "own resources" contribution. There is a clear danger that mounting agricultural spending will force the Community to ask for higher and higher VAT; and that as quid pro quo for continuing the Budget correction the UK will agree, as the German Government usually does.

As CAP expenditure depends on member government contributions, and as the real cost of the CAP to Britain is about twice its budgetary contribution (and the non-budgetary costs are also paid by consumers in other members) I would have liked an absolute veto on any increase above 1 per cent in VAT contributions, even at the expense of foregoing a deal on the British rebate. But this pass has now been sold and everything depends on the success of the finance ministers' proposed guidelines.

The finance ministers' draft lays down that agricultural expenditure on a three-yearly basis will increase less than an index related to Community national income. Unfortunately most CAP expenditure is, in the public expenditure jargon, "demand determined." That is, once the price regime has been fixed, the Community is legally bound to buy up surpluses and enforce it in all other agreed ways.

If there are any teeth in the proposals it is in the recommendation that the Commission's annual CAP proposals should observe the above limitations and that if the agricultural ministers look like taking more expensive decisions, the final decision would have to be taken by finance and agriculture ministers meeting jointly. This leaves far too much to the relative weight of the two sorts of ministers in their own cabinets.

The "realists" in Brussels say the sheer dislike of most governments, not merely the British, for the soaring EEC Budget will strengthen the finance ministers. They also cite the Commission's request for a 2.3bn ECU loan from governments this year (part of which will be granted) as proof that a VAT ceiling will not strangle CAP expenditure. Nevertheless, an unpopular loan request is a much more difficult hurdle than the automatic handing over of VAT proceeds.

But what worries me most is that the "realists" take it for granted that quotas, along the lines of those introduced for milk (or for that matter in force in steel), will be the main weapon limiting spending. Quotas are to any liberal economist the unacceptable face of managed capitalism, and a cure which depends on them is worse than the disease.

Letters to the Editor

The scrutiny of taxation

From the Director-General, General Council of British Shipping

Sir,—Your leader (May 11) on the scrutiny of taxation was, if I may say so, apt and timely. The shipping industry is one of many which has reason to feel aggrieved at the consideration it is getting through our antiquated procedures for examining Finance Bills.

It was decided between the Government and the Opposition that clause 57 and schedule 12 of the current Bill, covering capital allowances would, as one of the most important changes in this year's Bill, be taken on the floor of the House. The result was even less satisfactory than if the clause had been taken "upstairs" in committee. It and the schedule were debated in a very thinly attended House from 10.45 pm to 12 pm on May 1. Important amendments which had been put on the order paper were ruled out of order. The effect of this, for the shipping industry, is that the whole system of 100 per cent capital allowances, coupled with "free" depreciation which we had enjoyed for the last 19 years and which the Finance Bill puts to an end, were never examined in depth by the nation's legislators. Admittedly the matter can come up again at report stage and we can only hope that there will be a proper discussion then. But inevitably proceedings at report—before the whole House—are pretty rushed. And following the Parliament Act of 1911 the House of Lords, which has proved itself so effective in examining the technicalities of Bills, is precluded from looking at the small (and big) print of Finance Bill. So a fiscal change which will have the most serious and damaging effects on the British merchant fleet—and therefore on the nation's defence, balance of payments and maritime employment—takes place with the nation's legislators so far having spent only a few minutes on the matter!

Sir, you also refer to the Inland Revenue's admirable practice, which, as you say, has grown up in recent years, of discussing major changes to company and capital taxation in consultative documents. But what happened in the case of free depreciation? The Revenue put out its consultative document on corporation tax and capital allowances in January 1982. It contained not a word about the possible removal of free depreciation. The General Council of British Shipping in its comments on the consultative document stressed the extreme importance of the system to the shipping industry. Two years later, without any further consultation, free depreciation and 100 per cent capital allowances are removed "at a stroke."

Of course, there has to be some Budget secrecy — though fortunately the previous success of the Treasury in sheltering behind that particular cloak has been much eroded. But it seems to my industry (and I know others) to be quite wrong for such a major fiscal change which will have such far-reaching effects to be determined with the minimum of consultation with the sponsoring department (in this case Department of Transport) and none at all with the industry except after the event.

Sir, there needs to be open and informed debate about such major fiscal changes and the present Finance Bill procedure is just not good enough.

Patrick Shovelton.
30-32, St Mary Axe, EC3

Plea for Hong Kong people applauded

From Mr J. Bourlet

Sir,—May I applaud Anatole Kaletsky's plea (previously urged by Professor Peter Hall) that the people of Hong Kong be allowed to come to Britain?

While I might back even the "Monday Club" in pointing out that some immigrant groups to this country have, in part, pursued ways that cannot gain the full approval of us natives — their hosts — I believe that this cannot possibly be said of the Chinese.

For another view, why not consider the development of the largely Anglo-Chinese population of Vancouver in British Columbia? The Chinese built the trans-Canada railway faster than rival Irish workers, gained the respect of Vancouverites and have never looked back since. The resulting cultural mix is stimulating, peaceful, law abiding, able — and rich — and integrated.

One may be entitled to some doubt about whether the Hong Kong Chinese can repeat their economic miracle in the British business environment — joining trade unions, getting planning permits, paying high taxes, accepting the burdens of the common agricultural policy and VAT, etc — but at any rate those Chinese already here seem to manage.

I had the pleasure of spending a week in our "splendid and civilised colony" (the words of a Japanese commentator) last year and I am sure that if we can overcome our antipathy based as it is on totally irrelevant experience, then we are in for a pleasant surprise.

James Y. Bourlet.
Business Studies Unit,
School of Business,
Economics and Social Studies,
84, Moorgate, EC2

Liverpool's garden centre appreciated

From Mrs E. Kasket

Sir,—I was sorry that Robin Lane Fox (May 2) allowed his puritanical gardening spirit to cool his appreciation of the new Liverpool garden centre. After all, whatever its failures the show appears to be an enthusiastic explosion of energy — gardening with gnomes writ large.

I would, however, applaud (if I was not getting a little bored) his brilliant satire on the whimpering Walleys (latest, May 16) who persistently mistake, in an explosion of cheques, the more esoteric forms of middle-class culture for the substance of gardening.

(Mrs) E. Kasket.
7, Lymington Road, NW6

Wrongful use of insolvency

From Mr M. Homan

Sir,—Mr Goldman (May 14) is right in criticising the proposal in the Government's White Paper on insolvency reform for automatic disqualification of directors when a company goes into compulsory winding up. There are many reasons why companies may go into compulsory rather than voluntary winding up that have no connection with the conduct of the directors.

One of the effects of the proposals is that companies may well be placed in voluntary winding up prematurely by directors wishing to avoid the sanctions flowing from compulsory winding up.

Further proposals in the White Paper will be extremely damaging for the way in which receivership enables businesses and jobs to be saved. The White Paper recognises that receivership can be of great benefit but the proposals would destroy the receiver's constructive role.

When a receiver is appointed the company's debts are frozen. He can incur new debts to keep the business going and pay them out of the assets. The law gives him an indemnity out of the assets for this very purpose. The White Paper proposes that once the company goes into liquidation the receiver will lose this indemnity, in other words he must cease to trade.

These proposals for directors and for receivers interact in an unfortunate way. To escape sanctions directors will place companies in voluntary winding up before a receiver can be appointed, as receivership is often followed by compulsory winding up. This means that by the time the receiver is appointed the company will already be in liquidation and he will not be able to carry on the trade at all.

The White Paper's proposal of a new procedure for a court-appointed administrator is a useful addition to the means of reorganising the affairs of an insolvent company but it was never intended as a complete substitute for receivership.

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Misunderstanding regarding the nature of Eurobonds

From Mr M. Smith

Sir,—I would like to comment on Mary Ann Sieghart's article, "A threat to London's leadership" (May 14). Throughout the debate that has been conducted recently in the financial Press there has, I believe, been a misunderstanding regarding the nature of Eurobonds. Basically, it is along the lines that all Eurobond interest is paid gross, especially in London. I find that instructive though it is, Ms Sieghart's article does nothing to dispel this misunderstanding and, at one point, is actually misleading. The article states that, "investors like buying Eurobonds because no tax is deducted from their interest payments." Further on: ". . . investors should declare their Eurobond income to the relevant tax authorities and then pay the appropriate tax . . . Even honest investors would rather receive their income gross and pay the tax later than have it deducted at source."

This may be accurate for interest payments made in Continental Europe, but it is inaccurate regarding interest payments made in London and, as the article refers to London's leadership, is misleading in content. The situation in London is quite simple. A paying agent appointed by the borrower receives the total amount of interest due, without deduction of any tax, at his bank in the appropriate currency, and he then makes payment of interest from that account. If coupons are presented to him in London for collection without any kind of affidavit, then the agent must deduct 30 per cent United Kingdom income tax if the payment is made in this country for Schedule D issues, and must deduct the same tax from Schedule C issues, even if the interest payment is made abroad, i.e. the UK paying agent is instructing payment abroad from his account. Interest may be paid gross only upon the paying agent receiving either a form C from the collecting banker, or a form D, completed by a non-resident of the United Kingdom, supported by a form B from a bank in this country.

It is because this situation, which has not altered in any respect, has not been explained fully during this debate, either in the Financial Press or by the lead managers themselves, that many investors, both corporate and individual, are surprised by the request for affidavits, which must reveal the identity of the investor. In my experience, some investors have been most upset to find that either their identity must be revealed or they must pay 30 per cent income tax. Clearly, many European investors are under the illusion that no tax will be deducted in London, because the interest happens to be due on a Eurobond. In fact, the only exception to the situation, as far as I'm aware, is where a United Kingdom bank is the sole beneficial owner of the Eurobond in question, and can produce a letter by way of confirmation to the paying agent, which states, inter alia, that they will be responsible for the tax.

It would be more helpful if commentators would clearly spell out what exactly is involved in the paying of Eurobond interest in London, so that investors do not have the idea that their interest will automatically be paid gross in London, and that, at the same time, their anonymity will be preserved.

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FINANCIAL TIMES

Monday May 21 1984

Terry Byland on Wall Street

Brokers under a cloud

AFTER a week which brought the $7.5bn rescue package for the eighth largest bank in the U.S. and left the Dow Jones industrial average within a hair's breadth of its 1984 low, spare a thought for the stocks of the Wall Street trading houses, which have to keep the show going no matter how foul the weather.

The financial services industry as a whole has not covered itself with glory during the great retreat. The mutual fund industry has just shamefacedly admitted that it under-performed the Standard & Poor's 500 index in the first quarter, thus repeating its lacklustre performance of the second half of last year.

The March quarter brought gloomy trading results from most of the Wall Street trading houses, with the industry apparently turning in an overall operating loss before tax. Over the six months to the end of April, while the Standard & Poor's 500 shed only 1.2 per cent, stocks in some of the biggest names on Wall Street shed anything between 12 per cent and 17 per cent.

It has not all been a disaster, though, Quick Reilly, benefiting from banking links and from the revival of interest in discount broking, has consistently outperformed. First Boston and Donaldson Lufkin Jenrette have also stood out against the trend of the sector, and of the rest of the market.

To a great extent, this dismal performance reflects the sector's close alignment with the stock market itself. Brokerage stocks traditionally follow the market trend, but in a grossly exaggerated fashion. True to form, there was an improvement in stock prices in April when most of the leaders outperformed a 0.9 per cent gain in the S & P 500. But some of those gains in brokerage stocks have been clipped during May and nerves are tensed again.

The problems in the banking world – and few on Wall Street believe that Continental Illinois is the only difficulty around – have raised fears of forced selling of stocks or bonds on markets in no way braced for such treatment. Moreover, the dearth of retail-interest in the federal bond market has left traders financing portfolios stuffed with paper losses.

There are signs that the brokerage firms have been slow to re-adjust their own operations in the face of a colder climate. In his latest annual review of the larger, multi-line firms, Mr Perrin Long, of Lipper Analytical Services, comments that expenses are "out of control."

For the whole of last year, the latest period for which data is available, total operating expenses of the five biggest composite firms – Prudential-Bache, E. F. Hutton, Merrill Lynch, Paine Webber and Shearson/American Express, now including Lehman Bros – saw their operating expenses rise by 36 per cent to $8.6bn.

The major firms have taken some action to curb rising costs. Merrill Lynch has reduced its staff from 44,000 to 43,000 since the beginning of the year, and several others have instituted "hiring freezes." But Merrill has also held its place at the top of the list of firms opening new branch offices. In April, Merrill opened five new offices out of an industry total of 23. The industry rate of new openings in the first quarter exceeds that of 1983.

The urge to branch out suggests that the brokers are still after the retail trade, or private investor – Florida and Texas are the two states most favoured for new openings.

In fact, as is traditional in bear markets, retail trading, defined as transactions of 900 shares or less, is on the decline. In March it represented only 11.3 per cent of average daily volume on the New York stock exchange, compared with 16.3 per cent a year earlier.

The recent Lehman Bros drama has naturally raised the question of whether there will be further mergers on Wall Street if, as seems likely, the problems get worse before they get better.

On this point, there may be some cause for comfort. The Lehman acquisition by Shearson/Amex was considered generous by the market, which trades brokerage stocks at extremely ungenerous multiples of book value, in view of their strong customer bases and international strength. Merrill, for example, trades at only 1.20 times book and other perhaps less prestigious firms trade at less than book value.

If the short term outlook for brokerage shares is to be dominated by their respective merger prospects, then some stock prices are looking a little too low for the real world.

WIDESPREAD RECOVERY AMONG INDUSTRIALISED WORLD'S MANUFACTURERS

Big steelmakers return to profit

BY IAN RODGER IN LONDON

A FEW of the industrialised world's big steelmakers are already back in profit and many more will get out of the red in the next few months.

This week, for example, the big five Japanese companies, Nippon Steel, Nippon Kokan, Kawasaki Steel, Sumitomo Metal and Kobe Steel, publish their 1983-84 results, and all are expected to report a return to profits in the second half of 1983-84 after losses in the first half.

Most of the major U.S. producers will be back in profit in the current quarter, and even a few European companies, such as Hoogovens of Holland and Hoesch of West Germany, are again making profits on their steel operations.

Some of the most impressive results come from the relatively small, private sector producers, such as BHP in Australia, Stelco in Canada and Elkem in Norway. Elkem's recovery rests mainly on its aluminium and ferro alloy businesses, but its steel operations in Britain and Norway returned to profit last year after three years of losses. Svengst Stal of Sweden is the exception that proves the rule that government supported companies cannot succeed in this industry.

The keys to the widespread recovery are significant cuts in excess and obsolete capacity and improvements in demand and prices.

The U.S. has led in all these trends. Steel consumption rose about 10 per cent in 1983 and analysts expect it to grow even more strongly this year as the general economic recovery spreads to the capital goods sector. Mr Bob Hageman, an analyst with the New York stockbroker, Kidder, Peabody, says lead times on flat products have doubled to 12 weeks in the past six months.

U.S. list prices have not moved much, but discounts have been narrowing in recent months from the 25 per cent range available last year on some products, helped by the U.S. Government's moves to stem imports.

Meanwhile, it is thought that about 30m tonnes of capacity, 20 per cent of the total, has been taken out by U.S. producers since 1979 or is in the process of being closed, helping companies to improve their operating rates.

In Europe and Japan, steel consumption was still declining last year and producers have been slow to close redundant steelworks. Mr Tony Bird, a London steel analyst, forecasts an impressive 15 per cent pickup in consumption in Japan this year, which should be enough to see that country's producers comfortably back into profit. But he forecasts only a 3.6 per cent rise in the EEC countries.

By last June, EEC capacity had been cut by only 18m tonnes or 11 per cent since 1980. Some governments are now saying it will be impossible to eliminate subsidies to their producers by the end of next year, as ordered by the European Commission.

The slight improvement in EEC steel prices this year has occurred mainly because the Commission has imposed minimum levels. But prices are still lower than in the U.S. and Japan, so only those producers which have modern equipment and high operating rates are likely to be able to make profits.

Analysts doubt that profitability will reach a high enough level in the current cycle to restore the industrialised countries' steel industries to long-term viability.

"The profits are nice, but they are nothing like enough," Mr Bird says. "I don't think the industry will be in a viable state until the end of the decade."

Mr John Jacobson of Chase Econometrics agrees. "Overcapacity is still with us. Many countries have made important first steps, but that's all. The question is whether we will get to the point where the companies feel investments in steel are more attractive than in other businesses. I don't think so."

Brazil's Carajas gamble, Page 19

Company	Country	Latest Profit (Loss) $m	Period	Year Earlier $m
BHP (steel div)	Australia	34.3	1983 6mo[1]	(57.9)
BSC	Britain	(129.6)[2]	1983-4 yr	(261.3)
Dofasco	Canada	31.8	1984 1st ¼	12.6
Stelco	Canada	5.9	1984 1st ¼	(11.3)
Sacilor	France	(1,180.0)	1983 yr	(944.5)
Usinor	France	(625.7)	1983 yr	(578.5)
Hoogovens	Holland	(12.3)	1983 yr	(34.3)
Nuova Italsider	Italy	(748.4)	1983 yr	(689.5)
Elkem	Norway	16.5	1984 1st ¼	(4.5)
Svengst Stal	Sweden	37.1	1983 yr	6.2
Bethlehem	U.S.A.	(54.6)	1984 1st ¼	(22.5)
Inland Steel	U.S.A.	2.0	1984 1st ¼	(19.9)
LTV	U.S.A.	(29.0)	1984 1st ¼	(77.2)
National	U.S.A.	7.6	1984 1st ¼	(35.4)
Republic	U.S.A.	(36.7)	1984 1st ¼	(34.8)
U.S. Steel	U.S.A.	171.0	1984 1st ¼	(118.0)
Hoesch	W.Germany	10.9	1983 yr	7.6
Klöckner	W.Germany	(88.8)	1983 yr[3]	(48.9)
Thyssen	W.Germany	(199.4)	1983 yr[3]	(23.9)

[1] to Nov. 30, 1983
[2] estimate
[3] to Sept. 30, 1983

FT sources

Continental Illinois crisis 'contained'

BY PAUL TAYLOR AND WILLIAM HALL IN NEW YORK

U.S. FINANCIAL markets, stunned last week by the run on Continental Illinois, America's eighth largest bank, are hopeful that the crisis, if not passed, has for the moment been contained.

Although sentiment remains extremely sensitive, there are indications that a measure of confidence is returning, especially in the money markets.

At the end of last week spreads between Treasury bill rates and banks' certificates of deposit were narrowing.

The Federal Open Market Committee, the policy making arm of the Federal Reserve Board, will hold a regular meeting tomorrow. Although its decisions normally remain secret for a month Wall Street analysts are pointing out that the Fed faces a difficult conflict between its roles of lender of last resort on the one hand and of manager of the U.S. monetary policy.

Dr Henry Kaufman, Salomon Brothers' chief economist, says in his latest credit market report: "The Federal Reserve performed its most important role during the past week: It was the lender of last resort alleviating the stringencies and rising preference for liquidity caused by the problems of Continental Illinois bank."

He added that the speed with which banking markets returned to normalcy would greatly influence the timing of any further moves in monetary policy.

Wall Street's senior economists remain deeply split over how to interpret the U.S. economy and Fed policy in general, but on one point they are nearly unanimous. Following the sharp rise in U.S. short-term interest rates in recent weeks and the domestic banking crisis, they believe the Fed's already slim room for manoeuvre has been seriously reduced.

Meanwhile First Chicago, the city's second largest banking group after Continental, described as "premature" widespread speculation that it planned to bid for its troubled rival, though it refused to deny outright that it might make a bid.

Goldman Sachs, the New York investment bank, has been approaching many of the largest international banking groups on Continental's behalf since its chairman, Mr David Taylor, said it was exploring merger possibilities.

Mr Barry Sullivan, First Chicago's chairman, said at the weekend: "We are not presently preparing a bid. Any final decision to do so would have to await further study."

A merger of the two big Chicago banks would create an institution with assets of more than $80bn, which would be the third largest in the U.S. and among the dozen biggest banks in the world.

One European banker described Continental Illinois as "a real hot potato" for any prospective bidder, adding that a merger with it could "take a triple A down to a single A" in its impact on the acquiring bank's credit rating.

Fed strategy, Page 22

Spain ready to ease truck industry tariffs

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT, IN LONDON

THE SPANISH Government is considering the swift introduction of fundamental changes to the local content regulations and tariff barriers with which it protects its national commercial vehicle industry.

Among the proposed changes would be the removal of all duty on components from EEC countries. At present exporters of components to Spain from the EEC face tariffs of about 18 per cent while products going in the reverse direction pay only 4 per cent.

This has frequently raised criticism from EEC producers, most recently from the Confederation of British Industry the employers' organisation which last month started a major initiative for the reduction of the Spanish tariffs.

The Spanish Government also proposes to reduce to 18 per cent the tariff on components from territories outside the EEC – which would be of benefit to Nissan, which owns Motor Iberica in Spain. British Leyland's associate, Land Rover Santana, also shortly begins production of a four-wheel-drive vehicle based on a Suzuki design and in the future Mitsubishi might supply petrol engines from Japan for Daimler-Benz's Spanish commercial vehicle subsidiary.

As for local content, currently producers in Spain – which also includes Renault and the state-owned Spanish group Snasa – have to incorporate 85 per cent to 90 per cent Spanish content in vehicles approved for production. They also have to meet individually-agreed export quotas.

The Spanish Government now proposes that the local content be reduced to 70 per cent to 80 per cent and that the manufacturers be permitted to introduce other models with a Spanish content of only 40 per cent to 50 per cent as long as the average for an entire range is between 70 per cent and 80 per cent.

Export rules would also be changed so that manufacturers would have to export products worth 120 to 125 per cent of the value of their component imports.

The manufacturers have been told that the Spanish Government would prefer to make the changes as early as June so that it would have ammunition for the talks about Spain's entry to the Common Market.

While the changes would appear to help the manufacturers, the implications for the Spanish components sector are serious.

There would almost certainly have to be a painful process of plant closures and job losses which would need the special dispensation of the Spanish Government as it is otherwise very difficult to make anyone redundant in Spain.

Changing UK car market, Page 12

Swiss reject bank secrecy reform

BY ANTHONY McDERMOTT IN BERNE

SWISS VOTERS yesterday rejected by an unexpectedly large majority a referendum proposal calling for the reform of the contry's bank secrecy law.

The proposal, initiated by the Social Democratic Party in 1979, was rejected by all 26 cantons by a majority of 73 per cent.

The outcome of the vote was welcomed with relief by bankers, fearful that a change in the secrecy law might prompt large outflows of capital.

During the referendum campaign supporters of an end to secrecy said that because of the law the Swiss banking system was opened to tax fraud and evasion, to the inflow of "dirty money" from disreputable clients, including some Third World leaders and those in exile.

The constitutional change foreseen in the referendum would have obliged banks to give information about accounts to Swiss or foreign authorities investigating tax evasion or currency offences. Swiss banks at present open their books only to investigations of offences that are crimes under Swiss law.

The bankers' victory may not be the end of the debate, however. Although the banks have made voluntary arrangements to protect small depositors, to identify clients more closely and to avoid actively assisting tax evasion or breaches of foreign exchange controls, the pressure for tighter regulations is likely to continue.

In a second referendum vote, a proposal to make it much more difficult for foreigners to buy Swiss property was also rejected, but the vote was much closer – 51 per cent to 49 per cent.

Cantons in mountain areas and in the west, where there are many tourist visitors, voted conspicuously in favour of the restriction, but the vote for rejection was undoubtedly influenced by the fact that demand for such property has already fallen

Channel tunnel group will attack bank study

BY HAZEL DUFFY, TRANSPORT CORRESPONDENT, IN LONDON

THE REPORT by the five British and French banks of the financing of a Channel tunnel, to be published tomorrow in London and Paris, will be attacked immediately by the partners in the Euroroute consortium, which was set up by Mr Ian MacGregor when he was chairman of the British Steel Corporation.

Despite extensive lobbying of ministers and banks by Mr MacGregor for his bridge/tunnel proposal, the report dismisses this and other proposed fixed links on the grounds that the technical risk and magnitude of financial commitment would be beyond the acceptability of the financial markets.

Euroroute executives will say the data on passenger flows and future revenue which the banks used is based on outdated information. They will also criticise the fact that the study has been done by retail banks, rather than merchant banks which have more experience of long-term contract financing.

The 500 page report, which costs £125 ($173) a copy, concentrates on how a twin seven-metre tunnel, carrying rail and roll on/roll off shuttle traffic might be financed.

It describes this project – costing £2bn for basic construction rising to £6.3bn by 1993, its opening year – as the only proposal which is potentially both technically acceptable and financially viable.

The financing requirement for even this proposal is described as "formidable". The report – the product of two years' study by the five banks – proposes two different structures.

The first would require all funds to be committed and all governmental undertakings to be secured prior to the start of construction.

The second structure proposes a more familiar type of financing, requiring a progressive commitment of funds but implying a considerable degree of risk in the first two years of construction.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	16	61	Dubrovnik	S	30	86	Malaga	C	18	64	Salzburg	F	23	73
Akrotiri	S	29	84	Faro	C	17	63	Malta	F	27	81	Seoul	C	28	82
Algiers	S	19	66	Florence	S	25	77	Manila	—	—	—	Singapore	C	31	88
Amsterdam	C	12	54	Frankfurt	F	20	68	Miami	—	—	—	Stockholm	S	20	68
Athens	S	24	75	Funchal	C	19	66	Milan	C	11	52	Strasbourg	F	17	63
Bahrain	C	36	97	Geneva	C	11	52	Moscow	F	25	77	Sydney	R	21	70
Bangkok	C	35	95	Gibraltar	C	16	61	Munich	F	15	59	Tangier	R	28	82
Barcelona	F	18	64	Guernsey	F	13	55	Nairobi	F	26	79	Tampa	—	—	—
Beirut	S	24	75	Helsinki	S	21	70	Naples	C	30	86	Tehran	—	—	—
Belgrade	S	29	84	H. Kong	R	21	70	New Delhi	C	38	100	Tel Aviv	S	28	82
Berlin	F	20	68	Innsbruck	F	19	66	New York	—	—	—	Tenerife	F	21	70
Biarritz	C	13	55	Inverness	C	11	52	Nice	F	19	66	Tokyo	C	21	70
Blackpool	S	13	55	Istanbul	S	24	75	Oporto	C	13	55	Toronto	C	24	75
Bordeaux	R	13	55	Jersey	F	13	55	Oslo	F	16	61	Tunis	F	21	70
Brussels	C	13	55	Jo'burg	—	—	—	Paris	C	15	59	Valencia	F	21	70
Budapest	S	25	77	Las Palmas	F	22	72	Prague	—	—	—	Venice	S	23	73
B. Aires	C	18	64	Lima	—	—	—	Reykjavik	F	6	43	Vienna	S	24	75
Cairo	C	40	104	Lisbon	C	15	59	Rio de J'o	C	32	90	Warsaw	S	22	72
Cape Town	F	17	63	Locarno	R	7	45	Rome	T	28	82	Zurich	R	11	52
Caracas	C	29	84	London	R	9	48								
Casablanca	C	20	68	Los Angeles	—	—	—								
Copenhagen	S	19	66	Luxembourg	F	15	59								
Corfu	F	24	75	Madrid	F	14	57								
Dublin	C	12	54	Majorca	C	18	64								

Readings at mid-day yesterday.

C–Cloudy D–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

THE LEX COLUMN

A bank raid in Chicago

The Federal Reserve appeared by the end of last week to have restored the affairs of Continental Illinois to a semblance of order. The odds must now be against the bank's survival as an independent institution, but at least the lender of last resort in the world's largest financial marketplace has made an effective display of its commitment and clout.

For U.S. bank supervisors, and indeed for the commercial banks themselves, that is small consolation. If Continental's published figures are to be believed – and after all, with the regulatory attention which the bank has received over the past two years it would be astonishing if they could not – last week's debacle was wholly unnecessary. The bank is adequately capitalised and by all accounts had been taking appropriate action to correct the errors of earlier years.

That a public vote of confidence by the Comptroller of the Currency and a $4.6bn credit line failed to rebuild confidence is striking enough. That the Fed was unable to reassure even those banks within its jurisdiction must be giving rise to soul-searching in Washington. In effect, the schoolmaster has kept order in the class only by wading into the fray himself.

Creditworthiness

On the face of it, the timing of this latest crisis of confidence is extremely curious. The financial markets are admittedly concerned by the threat of a steep rise in short-term U.S. interest rates with all the implications that would have for the creditworthiness of sovereign debtors. Yet the climate does not look as turbulent as in 1982, when bank balance sheets were under simultaneous assault from bad debt experience in the domestic energy industry, the U.S. manufacturing sector and the heavily indebted countries of South America.

Moreover, the relative calm of 1983, had enabled the banking industry quietly to rebuild its capital base. U.S. banks raised a record $9.9bn of new long-term capital, two thirds of it in the shape of term debt, and entered 1984 with capital ratios which looked perfectly respectable by international standards. The low-coupon fixed rate loans with which many were burdened a few years earlier had been run off the books and it appeared that the lessons of 1974 and 1982 had been learned in the boardrooms.

Yet, if that is the message which the banks themselves were putting across, it was being greeted with some scepticism in the financial markets. Even before last week's developments, banks share were trading at near record discounts to book value. At the end of last week, Chase Manhattan and Manufacturers Hanover were valued on Wall Street at half their published net worth. Even the blue-chip Morgan Guaranty was suffering the ignominy of a 10 per cent discount. The rating agencies evidently concur with Wall Street. Bank credit ratings are on average lower than they have ever been.

Part of the problem is that the lessons of 1982 have been learned as fast elsewhere as they have within the banks themselves. Both shareholders and depositors monitor the progress of banks much more closely and discriminate to a far greater extent between one bank and another. This discrimination is inimical to the smooth working of wholesale money markets, which account for a growing proportion of bank funding requirements. Almost by definition, these markets cannot discriminate between credit risks. The upshot is that a U.S. bank, instead of having to pay a premium for its funds, may find that it simply cannot borrow at all. That, in a nutshell, was Continental's predicament.

The nervousness of wholesale depositors has been greatly exacerbated by the perceived illiquidity of bank loan assets. Successive debt rescheduling operations have lengthened the average maturity of loan books – at a time when banks have struggled to attract matching term liabilities – and have also made it less likely that these assets can be realised. While capital ratios may look fine on the surface, there are obviously doubts about the quality of the assets which underpin them.

Confidence

It is not at all easy to see how the banks themselves can restore confidence. At current prices, the equity market is effectively closed to them and debt capital, even if available, comes very expensive. Meanwhile, to retain earnings by cutting dividends would in the present climate be counterproductive. Balance sheet shrinkage – the course which was being taken by Continental – carries its own penalties since in general only high-quality loans can be sold and commensurate cost reduction is difficult to achieve without weakening a bank's overall structure.

A smooth takeover of Continental would certainly help. The acquisition of Seafirst Corporation by Bank of America last year provides a model for this kind of operation, even if the headaches which the deal brought the purchaser may not act as much of an incentive to be bold. Yet at least Seafirst is now safely stowed away and, for all the storm-clouds which have gathered recently over the U.S. banking industry, there are one or two chinks of light. First Pennsylvania Corporation, the bank which had to be bailed out in May 1980, has just reported its first worthwhile quarterly profit since the rescue.

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SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday May 21 1984

New bond issue activity dwindles to a trickle

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN LONDON

IT MIGHT have been raining in Nice last week but investment bankers who went there for the annual meeting of the Association of International Bond Dealers were probably glad to have escaped another depressing week in the bond market.

Over the week fixed rate dollar issues fell by ¾ points amid continuing worries over U.S. interest rates. By the end of the week new grounds for uncertainty had surfaced with the $7.5bn rescue package for Continental Illinois.

It will probably take a few days before the Eurobond market can fully digest latest developments on the other side of the Atlantic. With so many participants away from their desks, trading last week was thin and new issue activity dwindled to a trickle.

On the surface the problems at Continental Illinois might be expected to lead to lower interest rates as the Federal Reserve pumps money into the system to ensure banking liquidity. Very short-term rates were sharply lower last week but this does not appear to have filtered through to the longer end of the bond markets, where anxiety about future inflation persists.

One small ray of hope in Europe, however, was the hint of some retail buying from Switzerland at the higher yields prevailing towards the end of the week. Bank issues were marked down on the Continental Illinois problems, but in Friday's thin market closing prices were hardly representative of a real trend.

Indeed, the yen sector was the only part of the bond markets which saw any semblance of normal activity last week. Two Samurai bonds were launched – for United Technologies and Gaz de France – as well as a Euroyen bond for New Zealand. The yen has weakened sharply in recent weeks and Japanese bankers say there is some buying demand from foreign investors keen to cash in on the cheapness of the currency.

BHF Bank bond average		
May 18		Previous
98.989		99.053
High	1983-84	Low
100.099		98.056

This may have helped the Euroyen issue somewhat but, despite Japan's strong economic fundamentals, there is no getting away from the fact that its own domestic bond market is seriously caught up in the general malaise emanating from New York. Last week it suffered further from fears that escalation of the Gulf war could affect Japan's oil supplies, and Samurai bond prices which are heavily influenced by events in the domestic market slipped by 1½ to 2 points.

D-Mark and Swiss franc issues both closed lower last week. The Bundesbank made no use of its council meeting on Thursday to raise interest rates, but bankers say there is still a possibility this might happen at the end of the month.

Denmark launches awaited $1bn standby credit today

BY OUR EUROMARKETS CORRESPONDENT

DENMARK today launches its long-awaited $1bn standby credit which was quietly mandated at the end of last week to Manufacturers Hanover.

At first sight the terms on the 10-year credit, which is designed to replace a large part of Denmark's existing stock of undrawn loans, are enough to make the market gasp. Denmark will pay a facility fee to participating banks of only 0.05 per cent each year, which is both way below market expectations and sharply down on the commitment fees for existing Danish credits which range from ⅛ per cent to ⅛ per cent.

But the credit has been carefully structured to penalise Denmark heavily if it is ever drawn. This is done in three ways. First, the facility fee is payable whether the credit is drawn or not which increases the cost of actually drawing it. Second, Denmark must try to sell short-term Euronotes in the market before drawing on the credit itself, and third, the margins on the credit, if drawn, are higher than Denmark would expect normally to pay.

Drawings on the standby will bear interest at ⅜ per cent over London Eurodollar rates if up to $250m is used. For larger amounts the margin will rise to ½ per cent. As if that was not discouragement enough, Denmark will first have to go through the complex process of trying to sell the Euronotes in the market at a minimum yield to banks of 0.1 per cent over Eurodollars.

The chances are, therefore, that Denmark will never actually draw on the facility. That should mean that banks feel they can afford to participate at such a low facility fee. Denmark, meanwhile, has bought protection against the vagaries of the market. In no longer needs to worry about keeping a stock of undrawn credit to meet unexpected borrowing needs and can go for cash loans or floating rate notes at the lowest possible cost in whichever market suits it best.

Manufacturers Hanover describes the deal as a "Revolving Standby and Eurodollar Note Issuance Facility." That high-falutin name is in itself testimony to the growing technical complexity of a bank credit market in which plain-vanilla Eurocredits rapidly seem to be becoming obsolete. Certainly, Denmark will have less use for the Eurocredit market from now on. It used to like the credit market because it could arrange loans and then wait for long periods before drawing them. This allowed it to create a stock of undrawn loans. With this credit in the bag, it will, however, be able to meet its cash needs in cheaper markets such as that for floating rate notes.

Elsewhere, a $400m credit for Electricité de France was so widely talked about in the Eurocredit market that Credit Lyonnais, which has a close relationship with the borrower, was forced to deny rumours it had already won the mandate. There is little doubt that French state entities are looking closely at borrowing opportunities.

But the time does not seem quite right for any major deal. Last week's Senate committee report which drew attention to France's large borrowing needs has to recede into the background first.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
U.S. DOLLARS							
Royal Co. $‡	40	1999	15	3	100	Nippon Kangyo Kagumaru, Robt. Fleming	3.000
Kone Corpn. †‡	50	1994	10	¼	100	Kansallis Osake Pankki	–
Isec §	50	1999	15	3	100	Nikko Europe, Robt. Fleming, Mitsubishi Fin.	•
D MARKS							
World Bank **‡	150	1989	5	8	–	West LB	–
SWISS FRANCS							
Royal Co. **§‡	30	1989	–	1¾	100	SBC	1.750
Iseki & Co. **§‡	70	1989	–	1⅞	100	UBS	1.875
Morita Fire Pump **§‡	20	1989	–	1⅞	100	Swiss Volksbank	1.875
Mec Inami **§‡	25	1989	–	1⅞	100	SBC	1.875
Prov. of Manitoba ‡	100	1994	–	5¾	99½	UBS	5.817
Consolidated Foods ‡	200	1994	–	5¾	99½	UBS	5.817
Mozelbet Co. **‡	15	1989	–	5⅞	100	Banca del Gottardo	5.875
Statsforetag ‡	75	1992	6½	6	99½	Nordfinanz-Bank Zurich	6.081
SWISS FRANCS							
Shin-Etsu Chemical **§	30	1989	–	2	100	UBS	•
GUILDERS							
Jutland Tel. Co.	50	1994	8	9¼	•	Amro Bank	•
ECUs							
SNCF ‡	45	1994	10	11½	99½	BNP, BBL, Paribas	11.587
YEN							
United Technols. ‡	15bn	1989	5	7	99.6	Daiwa Secs.	7.222
ANAS **‡	10bn	1994	9	7.9	99.7	Yamaichi Secs.	8.102
Belgium **‡	10bn	1994	9	7.9	100	Nomura Secs.	8.056
Gaz de France ‡	20bn	1994	9	7.4	99.5	Nikko Secs.	7.611
New Zealand	15bn	1990	6	7⅛	•	Daiwa Secs.	•

* Not yet priced. ‡ Final terms. ** Placement. § Convertible. † Floating rate note: coupon is spread over 6-month Libor. Note: Yields are calculated on AIBD basis.

UK GOVERNMENT SECURITIES

Investor strike may result in more generous yields

BY MAGGIE URRY IN LONDON

"THE most disturbing thing about this year is that it's shaping up like last year," is the way one gilt-edged analyst expresses current fears about the market. This time last year, the UK government bond market was suffering a rise in yields made necessary to fund the growing public sector borrowing requirement (PSBR), and to keep money supply under control. The July spending cuts package was another result of the Government's pre-election spending spree. The worry now is that the same process may be happening again.

For some time the UK bond market has been following U.S. trends less slavishly, with yields on long-dated bonds in the two markets diverging. But in the last month it has become clear that "decoupling" British from U.S. interest rates is not so easy, and the rise in U.S. rates was blamed when the UK clearing banks lifted their base rates two weeks ago.

Since then domestic problems have crowded in and many economists are looking for another small rise in base rates next month. Last week's economic statistics – from the PSBR figures for April, through money supply, to inflation – were all bad news. They came on top of a worsening U.S. outlook.

The effect on the gilt market is reflected in the fate of the Government Broker's latest offering. He issued a convertible stock – Treasury 9½ per cent 1989 which can be switched into a 9½ per cent 2005 stock – a week before the base rate rise, just as the market was beginning to expect that increase. So the tap stock had an unsuccessful launch, and soon drifted down from its £50-paid price.

Last week, a flurry of optimism encouraged the Government Broker to reactivate his tap by cutting its price to £47⅝. But the PSBR figures the next day, showing £2.4bn for April alone, put paid to that rally and left the tap below his last selling price once again.

The Government Broker now appears to be in a dilemma. Selling more gilts would help the Treasury to fund the PSBR and make the money supply figures look better. But who wants to buy gilts when those figures are looking so bad? The solution looks like being the same this year as it was last – a rise in yields, caused by aggressive funding.

In the May banking month, which ended last Wednesday, the Government Broker may only have sold £500m of gilts. That in turn is pushing up estimates of sterling M3 growth in May towards 2 per cent.

By the time those figures are announced in early June, an absence of gilt buyers will be hitting the June money figures too. The vicious circle will be well and truly established.

The Government Broker's job is by no means easy – to break out of that circle and to sell stock. The institutions are not short of cash, and this week sees gilt dividend payments of around £800m plus the redemption of Exchequer 14 per cent 1984, which could put a further £500m into the market. The problem is tempting the institutions.

It will take something dramatic to do that. The most acceptable type of issue would be a conventional long-dated stock. But the long end of the market has been kept relatively free of government issues in a (so far vain) attempt to encourage corporate borrowers.

That leaves the authorities the medium-dates as their most obvious choice for a new issue, though they will have to be willing to pay enough to persuade institutions to buy the paper.

FINANCIAL TIMES SURVEY

WORLD BANKING

Part one; THE INTERNATIONAL SCENE

IF MAY is the month when everyone starts to look on the bright side, then it has come just in time for the world banking industry.

Rather suddenly, the $800bn international debt crisis seems to have stopped getting better and may actually be worsening again. U.S. interest rates are rising sharply, piling hundreds of millions of dollars extra on to debtor countries' payments. The world-economic recovery on which everyone is pinning their hopes is threatened and efforts to sort out the problems of Argentina, currently top of the sick list, are bogged down.

By David Lascelles

Banking Correspondent

Once again, the air is filled with calls for "long term solutions"—always a sign of ebbing faith in the bank-made rescue packages, held together by the frail string of hope and an IMF seal, with which the world has managed so far.

Nobody expected the way out of the crisis to be easy, and the darkening picture of the last few weeks could still be due to a passing cloud rather than the onset of night. But no one can be sure. If bankers are taking fresh stock, and if, as has recently happened, central bankers got into a huddle in New York to try and find some answers, that is not surprising; in some ways it is encouraging.

The danger now is that LDCs will be caught in a pincer of soaring debt servicing costs and falling hard currency earnings which will destroy even the best-laid economic plans. In Brazil today inflation, growth and the political mood of the country, are all deteriorating: only the balance of trade is improving, but for how long?

If its rescue programme proves untenable, it is extremely unlikely that the banks and IMF will have either the stomach, or the resources, to cobble together yet another multi-billion dollar package, and stretch repayment out even further into never-never-land. The time really will have come for "long term solutions."

Some would argue that it has already: that the IMF arrangements are doing untold damage to Third World economies by draining them of resources and piling up political pressures. These should be replaced as soon as possible by realistic schemes which recognise that LDCs will not pay off their debts this century, and insulate them better from the vagaries of world trade and foreign interest rates.

Here, at least, there is no shortage of ideas, though most lack in workability what they may boast in ingeniousness.

The simplest idea is that banks merely capitalise interest—treat overdue interest as a new loan. This has the virtue of taking the immediate sting out of any debtor's predicament, which counts for a lot when tension in the banking system is close to snapping point. (Ending the ritual quarterly crisis over the U.S. banks' non-performing loan problems would also help here, incidentally.)

On the other hand, it only postpones and magnifies the eventual repayment and forces any prudent bank to recognise the loan as distinctly inferior—and make costly write-offs.

Elaborate schemes have also been put forward to transform LDC bank loans into a marketable commodity, like bonds. The advantages are that banks could get the loans off their books by selling them to investors and spread the risks more widely. If the bonds carried a fixed rate of interest, as most do, the LDCs would also be protected against sharp upswings in interest rates.

But again, the objections are only too evident. Assuming they could sell them at all,

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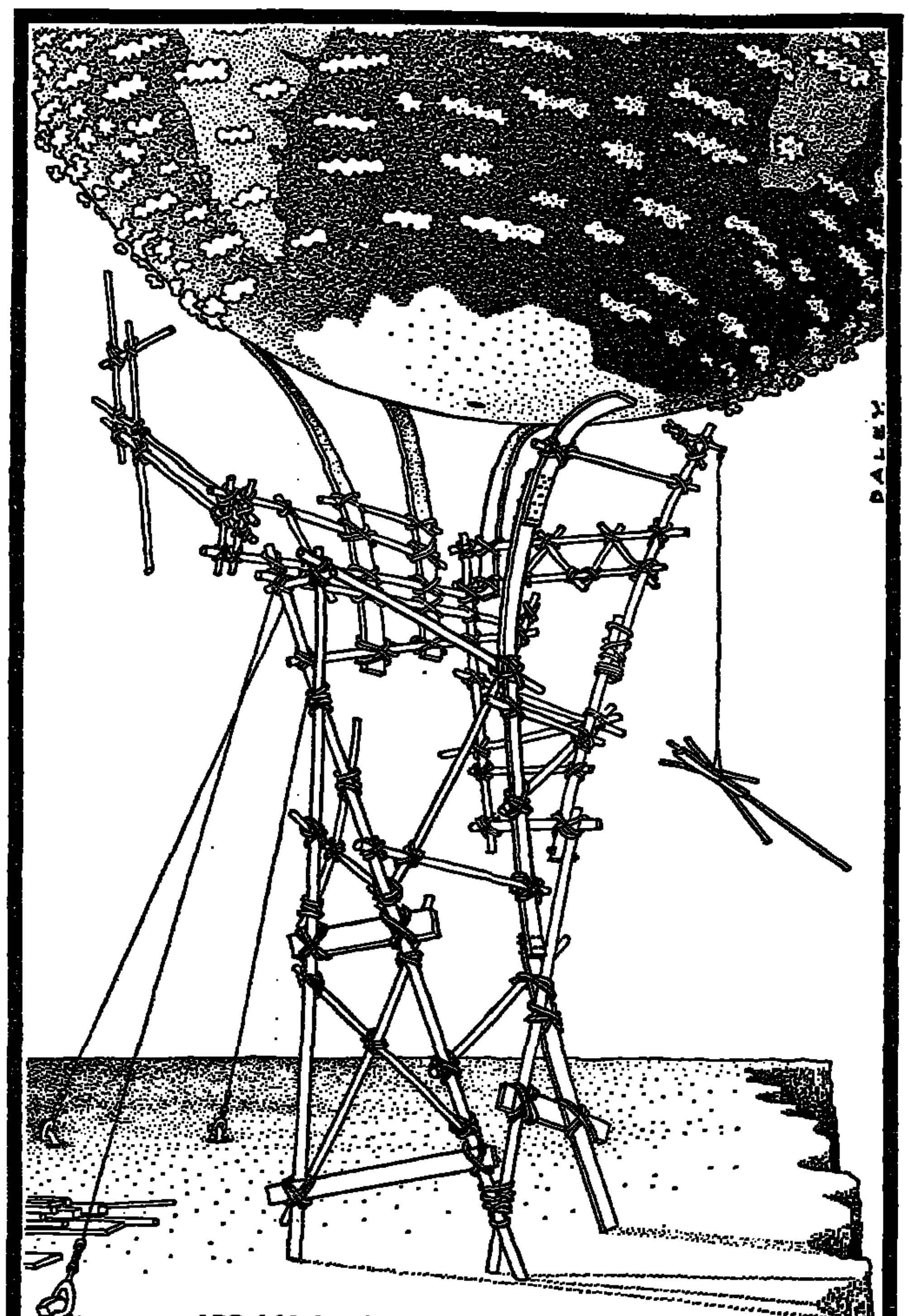


LDC debt: banking on makeshift arrangements, rather than on grand solutions.

Despite forecasts of an upturn in the world economy, there are new calls to-day for 'long-term solutions' to the $800bn international debt crisis—a sign, perhaps, of ebbing faith in bank-made rescue packages. But a consensus on an alternative approach is still missing.

IN THIS SECTION

PART TWO of this Survey will appear next Tuesday, May 29, and will include the following topics:

● The business of banking: the gradual erosion of barriers between banking and other financial services in major countries around the world.

● FT writers will examine new forms of competition in retail banking and how the banks and regulators are reacting to the challenge from stockbrokers, building societies, savings banks and insurance companies.

● Writers will also look at developments in banking technology, the proliferation of credit card systems and the move towards a cashless society. Other sections will highlight developments in correspondent banking; trade and export finance; leasing; consortium banking; project finance; fund management and merchant banking.

● A major part of the survey will focus on domestic banking developments in various European countries; the Middle East; Asia and the Pacific; the Caribbean; Latin America; and Africa.

● Editorial production of this survey was by Mike Wiltshire. Design by Philip Hunt.

IMF predicts a general broadening of the recovery this year

'A turn for the better'

THE world economy took, in the words of the International Monetary Fund, "a decided turn for the better" last year, and the improvement in output is expected to continue this year

However, the growth of total world output in 1983, following two years of stagnation, was only half the annual average achieved in the decade up to 1976, and was concentrated in a relatively few industrial countries, notably the U.S.

The world economy

MAX WILKINSON

Economics Correspondent

The developing world, still struggling to adjust to high dollar interest rates, the burden of debt and relatively low world commodity prices, suffered economic stagnation for the third year running.

In its World Economic Outlook, published in full in May, the IMF predicts a general broadening of the recovery this year, with output in the industrial countries 3.6 per cent higher than it was in 1983, following growth of 2.3 per cent last year.

This would be close to the average annual rate of growth between 1967 and 1976, but well below the growth rate in the years of peak activity. Moreover, the IMF suggests that there will be a general slowing down in the rate of growth by the end of this year, as the U.S. recovery flattens out.

The fortunes of the developing countries are expected to improve somewhat as their economies are pulled along in the slipstream of the developed world. However, the average growth rate of 3.8 per cent expected for them this year is still well below their historic rates of growth.

The amount of suffering which the recent recession has inflicted on the Third World is illustrated starkly by the fact that the total growth expected in the first four years of this decade is hardly more than that achieved in a single year on average in the decade up to 1976.

For the debt-ridden countries the position is worse. They are expected to grow by a little under 3 per cent this year, less than half their historic growth rate.

Although the IMF report is heavy with forebodings about the consequences for the world economy of the U.S. federal budget deficit and the world debt burden its report was written before the recent sharp rise of U.S. short term interest rates and the associated strengthening of the dollar.

Long-term bond yields, had indeed, been rising since the middle of last year and the pressure for a rise in short term rates was already evident. But it was not until the Federal Reserve Board tightened its policy in March, that these pressures were translated into a clear shift of market sentiment.

The U.S. prime rate then rose; and the almost universal predictions that the U.S. dollar would be dragged down by the increasing weight of the current account deficit were moved yet again a step further into the future.

In the short run, there seems little reason why a rise in interest rates should arrest the recovery of the major economies. The U.S. has, after all, achieved growth equivalent to an annual rate of over 7 per cent in the first quarter of this year with long bond yields the same number of percentage *points above the inflation rate.*

Insulated

Recovery in Europe and Japan has also been proceeding steadily with interest rates which appear to be very high in "real" terms.

Moreover, the European financial markets have had some limited success over the last year in insulating themselves from the movement of U.S. interest rates—with considerable official encouragement. However, there is a limit to the amount of "decoupling" that the market will permit or which the authorities will willingly countenance.

From the market point of view, a very wide disparity of interest rates must depend to some extent on the expectation that the dollar will decline in the not too distant future.

From the authorities' point of view, a continued widening of the interest rate gap with a consequent capital flow towards the U.S. and a strengthening dollar, carries inflationary dangers.

The strong dollar has, in effect, allowed the U.S. to export inflation to the rest of the world. It has constrained the prices of goods imported into the U.S. while tending to raise the price to the rest of the world of those commodities denominated in dollars, particularly oil.

In the medium term, it is argued that commodity prices will adjust to a world price measured against a basket of the major currencies. But meanwhile a rise in the dollar may inflict some damaging shocks to the inflationary psychology of countries where the authorities are struggling to keep price rises and wage settlements on a declining path.

The UK is an example: The annual rate of increase of prices paid by manufacturers for fuel and materials rose to 8.6 per cent in April, compared with 6.9 *per cent in March*, largely because of the effect of the strengthening dollar on import prices.

If continued, rises of this order would tend to jeopardise the Government's plans to keep inflation falling through a 4½ per cent by the end of this year. And it showed in 1981, that when the inflation objective was threatened it was prepared to support the pound with really substantial rises in interest rates.

The more serious implication of a rising trend of interest rates, however, is the threat posed to the stability of the world's financial system by the debt servicing burden of third world countries.

The impact is threefold: first, the high value of the dollar which has been associated with rising U.S. interest rates, makes it more difficult for developing countries to earn enough to pay the interest on their dollar-denominated debts.

Second, rising interest rates directly add to the cost of servicing floating rate debt and make the prospects for rescheduling large amounts of short-term debt much more problematic.

Thirdly, even a small depressive effect on the world economy through the slowing down of fixed investment could have a serious effect on some of the larger debtors for whom the growth of world trade is of crucial importance.

Projections

The IMF estimates that each 1 per cent cut in the growth rate of the industrial countries from that assumed in its projections would increase the deficit of the non-oil developing countries in 1987 by $20bn compared with what it would otherwise have been.

By 1990, the deficit would have risen to $150bn compared with $85bn on the slightly more optimistic assumptions of its central forecast. The IMF believes this larger deficit could not be financed by private lending from the developed world.

Consequently, the developing countries would have to cut back their imports severely and would suffer a cut of about 1 per cent in their growth rates.

The IMF assumes in its central scenario that world interest rates will fall by about 3 percentage points between 1985 and the end of the decade. But, even in this case, it foresees considerable, though surmountable, diffi*culties ahead in dealing with* the debt mountain.

The recent rise in interest rates does not, of course, mean that a fall in the medium term is less likely. However, it does focus attention on to the dominating question of the U.S. Federal budget deficit and the willingness of Congress to take relatively speedy action to reduce it.

If, as is still possible, the "down payment" package to cut $50bn a year off the deficit should get bogged down in Congressional disputes, the outlook would start to look bleak indeed. Financial markets are already clearly anxious about a resurgence of inflation if the authorities were forced eventually to monetise the deficit.

The high level of long term interest rates is hardly consistent with any other view. Recent history includes too many precedents for governments to slide out of their debt obligations through inflationary financing.

This is not an option for the third world countries in respect of their foreign debt. However, this debt also might rekindle inflation if the authorities came under irresistable pressure take over some of the private debt and monetise it, in order to protect the banks from the threat of default.

Although the worst excesses of inflation have been defeated in the major countries it seems likely, however, that the instability of the financial system will, for some time to come, exercise a serious drag on world prosperity.

So long as the authorities are worried about inflation, debt and interest rates the prospects of expanding demand fast enough to get rid of the very high levels of unemployment in Europe, look far off and hazy.

INDUSTRIAL COUNTRIES: CHANGES IN OUTPUT AND PRICES*
(in per cent)

	Average 1967-76†	Change from preceding year 1983	Change from preceding year 1984	Change from fourth quarter of preceding year: fourth quarter 1982	1983	1984
Real GNP						
Canada	4.8	3.0	5.0	−5.0	6.9	4.1
U.S.	2.8	3.3	5.0	−1.	6.2	4.0
Japan	7.4	3.1	3.9	3.6	4.0	3.3
France‡	4.7	0.6	0.6	1.2	0.1	1.4
Germany, Federal Republic of	3.4	1.3	2.6	−2.0	3.2	2.7
Italy‡	4.3	−1.4	1.9	−2.4	1.8	1.5
UK‡	2.3	2.9	2.6	1.6	2.7	2.8
All industrial countries	3.7	2.3	3.6	−0.3	4.8	3.2
Of which.						
Seven major countries above	3.6	2.5	3.9	−0.5	4.4	3.3
European countries	3.5	1.1	1.9	−0.1	1.9	2.1
Inflation (GNP deflator)						
Canada	6.9	6.2	4.9	8.3	5.1	4.9
U.S.	5.6	4.2	4.1	4.4	4.1	4.3
Japan	7.9	0.7	0.7	0.8	0.8	1.1
France‡	7.3	9.2	7.2	9.6	9.4	6.1
Germany, Federal Republic of	5.1	3.2	3.0	4.8	2.5	2.5
Italy‡	9.3	15.0	12.2	16.6	15.5	11.9
UK‡	9.9	5.1	5.0	6.3	4.4	4.8
All industrial countries	6.7	5.1	4.5	5.8	5.0	4.2

* Composites for the country groups are averages for individual countries weighted by the average U.S. dollar value of their respective GNPs over the preceding three years. For classification of countries in groups shown here, see the introduction to this appendix.
† Compound annual rates of change.
‡ GDP at market prices.
Source: IMF.

Cutback in U.S. lending abroad

Capital flows

MAX WILKINSON

AT THE turn of the year, the Organisation for Economic Co-operation and Development was predicting that large international movements of capital would become less important in determining the exchange rate of the dollar.

Instead, it thought the foreign exchange markets would look increasingly at the "fundamental" economic indicators including the rising current account deficit. *The obvious implication was that the dollar would drift* downwards as the adverse trade balance started to have more influence on the markets.

At the beginning of the year this expectation seemed as if it were being fulfilled. However, by the end of March the dollar was once again buoyed up by a short-term flow of capital into the U.S., drawn in by higher interest rates.

As a matter of theory it must be true that the capital flows will equal the current account of the balance of payments.

However, in practice it is notoriously difficult to measure capital movements and huge discrepancies have opened up in respect of the U.S. and the world as a whole.

The latest World Economic Outlook, produced by the International Monetary Fund in May, shows all major groups of countries are in deficit with each other on the current account of the balance of payments, which is impossible. The total discrepancy in the accounts is $74bn for 1983 about twice the size of the U.S. current account deficit for that year.

Any attempt, therefore, to estimate even the rough size of capital flows from the current account figures, is immediately bogged down in uncertainty.

On the other hand, direct measurement of the movements of capital are also extremely unreliable.

For the UK, for example, the discrepancy between recorded capital flows and the balance on trade was £3.6bn in 1983. This fell to "only" £800m last year, but in the third quarter the unexplained gap was minus £1.5bn and followed by plus £1.5bn in the following quarter.

One reason for these wild swings in the figures is the difficulty in distinguishing the very short-term movements of so-called "speculative" capital (but including the liquid funds of large international corporations) from the longer term movements including direct and portfolio investment.

Mr David Morrison, senior economist for the London broker Simon and Coates, has made an attempt to penetrate the statistical fog by analysing capital flows to what he calls the "phenomenal appreciation" of the dollar since 1978.

He has used data from the Department of Commerce to estimate the flows of capital in various categories and in relation to the major international economic groupings.

As the table shows, the net dollar value of the U.S.'s capital assets abroad (after subtracting overseas investment in the U.S.) rose by $36bn in 1981 compared with the previous year and by a further $12bn in 1982. But in 1983 there was a very large estimated fall of $38bn to a net total of $135bn

Sharp swing

This suggests that the U.S. swung very sharply from being a net exporter of capital to a net importer last year.

These figures appear to be at odds with the current account position for those years. In 1982, the current account showed a deficit of $1bn rising to $40bn last year. This suggests that in 1982 the U.S. had both a current account deficit and an outflow of capital. Moreover after revaluing the capital outflow to take account of the change in the currency, it rises to $30bn. This puts a discrepancy between the current and capital accounts at an enormous $40bn.

In spite of this very big uncertainty, Mr Morrison's calculations do give a picture of the direction of the recent trend.

No doubt the most important factor has been the slow-down in U.S. banks' lending abroad particularly to Latin American countries. This changed the position of the U.S. banks from net lenders abroad to net borrowers in 1983.

A more detailed analysis shows that most of the capital flow into the U.S. came from the private sector, with an increase of $77bn last year in the value of overseas assets in the U.S.

The geographical breakdown shows that the U.S. had not only a net capital inflow from Western Europe of $21bn last year but also a net inflow of $15bn from Latin America and other Western hemisphere countries.

Despite the fact that the U.S. has not been transferring capital to the Latin American countries, the major debtor countries are expected by the IMF to have a total balance of payments deficit of $31bn this year. This is about $9bn less than last year and almost $50bn less than in 1980.

Thus, although the financing needs of the borrowing countries is diminishing, it is still almost as high as it was in 1979, and is likely to decline only slowly.

The position of the oil exporting countries is improving, however. The latest Bank of England estimate (in March) is that the external borrowing needs of the oil countries was eliminated after the first quarter of last year as their current accounts swung back into an aggregate surplus.

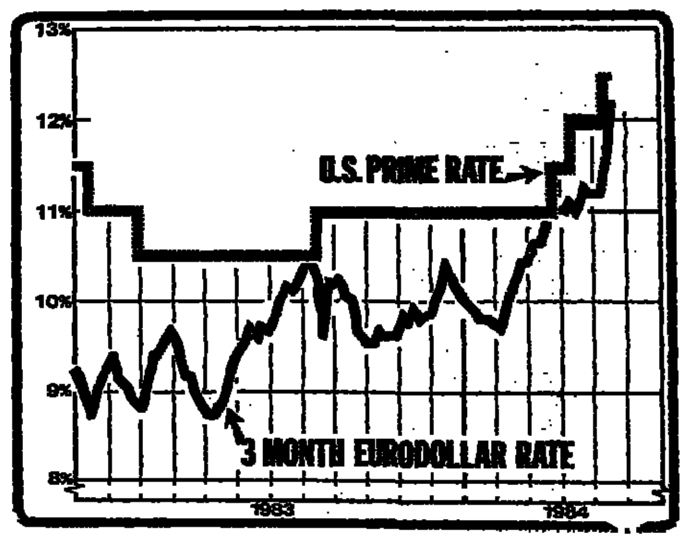
This gave them an estimated $2.9bn funds available for overseas investment in the third quarter compared with a total deficit of over $15bn in the first two quarters.

However, for 1983 as a whole the oil exporters are estimated by the Bank to have had a net inflow of funds from the U.S. compared with outflows to the U.S. of $15bn in 1981 and $11bn in 1982.

NET US INTERNATIONAL INVESTMENT POSITION
($bn)

End-Period	1979	1980	1981	1982	*1983
1 U.S. Assets Abroad	510.6	606.7	716.9	834.2	883.5
of which					
2 Official Reserves	19.0	26.8	30.1	34.0	35.2
3 Other Govt. Assets	58.4	63.5	68.4	73.9	78.8
4 Private Assets	433.2	516.4	618.4	726.2	769.5
of which					
5 Bank Loans	157.0	203.9	293.0	402.3	425.5
6 Foreign Assets in U.S.A.	416.0	486.1	560.4	665.5	748.5
of which					
7 Official	159.7	176.0	180.9	189.2	195.3
8 Private	256.3	310.1	379.5	476.3	553.2
9 Net Position (1-6)	94.6	120.6	156.5	168.7	135.0
Memorandum					
10 U.S. Direct Investment Abroad	187.9	215.4	226.4	221.4	229.4
11 Foreign Direct Invests. in the U.S.A.	54.5	68.4	90.4	101.8	111.4
12 U.S. Holdings of Foreign Securities	56.8	62.5	63.2	75.3	85.3
13 Foreign Holdings of U.S. Securities	179.4	208.4	319.1	251.6	275.6
14 U.S. Bank Claims (private)†	157.0	203.9	293.0	402.3	425.5
15 U.S. Bank Liabilities (private)†	110.3	121.1	165.3	229.6	272.9

*Estimated. †Not elsewhere considered.
Source: Simon and Coates



Calls for a top-level political initiative

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banks would only be able to unload the bonds at a large discount, which would result in heavy losses. And just as the LDCs need not fear rising rates, they would not benefit from any fall.

It is hard to see banks adopting any of these schemes freely. Central bankers, who might be in a position to apply a bit of pressure, also seem unenthusiastic, partly because they suspect they would end up having to buy those bonds in a politically dictated bail-out, but partly, too, because they maintain that banks should sort out their problems themselves. Certainly, there is a widely held view that bankers—particularly the Americans—have done the minimum necessary to protect their interests, and should be made to suffer a bit more with so much at stake.

Judging by the New York meeting, central bankers led by Mr Paul Volcker of the Fed favour putting a cap on interest rates on LDC loans, and pressing banks to shave the large "crisis" spreads they charge on their rescue packages. The banks can be expected to resist fiercely any attempt to make them bear the brunt of these proposals. But if they do not subsidise the loans, who will?

Suggestions for a "super fund" administered by governments or official institutions have also been put forward. As last year's Congressional debate over new funding for the IMF showed, however, there is strong political resistance in the U.S. to using public money, and Herr Karl Otto Poehl, president of the Bundesbank, has just warned that West Germany would be unable to raise its commitments to the IMF without jeopardising its monetary reserves.

Economic summit

Yet, though there are now calls for a top level political initiative at next month's economic summit, there are also reasons to be less concerned about a catastrophe than last year.

One is that the scale of the problem is now somewhat smaller. East Europe is getting its finances in order; even Poland has been stabilised with a four-year rescheduling agreement and a new loan which takes it off the danger list. Mexico is also in better shape than might have been predicted this time last year.

Another is that the bulkheads of the world banking system have been shored up. Bank supervisors have successfully put pressure on banks to bolster their capital bases and build up their loan loss reserves. As the Bank of England pointed out in its latest bulletin, banks are beginning to grow round the debt problem: their capital is rising faster than their exposure to troubled countries.

The third is that while the Fed is sticking uncompromisingly to its anti-inflationary guns and causing rates to rise, the Reagan Administration seems able and willing to throw money at the crisis whenever it becomes threatening. This may not be healthy, but preferable, possibly, to the Fed allowing the debt crisis to dictate U.S. monetary policy.

Nor should one overlook the short term benefits that the much-criticised U.S. current account deficit is bringing to world trade. The U.S.'s massive imports may not all be coming from the LDCs but they must be helping foreign economies.

It may be wise to bear in mind all the little things that help the LDC debt crisis over its humps, because they could end up supplying the only workable solution: more "muddle-through" aided by bank-government big heaves when the going gets tough. The grand solutions while appealing, require a commitment of political will and hard cash which even the crisis in its latest, more worrisome stage, seems unlikely to summon forth.

DEVELOPING COUNTRIES: EXTERNAL DEBT OUTSTANDING
(Figures in $bn)

	1982	1983	1984
Developing countries	724.8	767.6	812.4
Short-term debt	148.2	126.2	97.6
Long-term debt	576.6	641.4	714.8
By type of creditor:			
Official creditors	205.4	229.6	254.4
Private creditors	371.2	411.8	460.4

Although rescue programmes are now in place for the major debtors, the problem is still intense, and there is lively debate over the need for broader solutions. A testing time looms for creditor and debtor alike.

Debtors pay a heavy price

A FEELING of unease has begun to permeate the international banking community about prospects of solving the developing country debt crisis that first exploded in 1982.

While the strong recovery in the U.S. has helped many debtors by boosting their exports, interest rates are rising again, forcing them to pay hundreds of millions of dollars more each year in debt service charges.

LDC borrowers: a progress report

PETER MONTAGNON

Against the background of domestic recession, the political climate in many of the afflicted countries is hotting up. There have been cabinet changes in Peru and Chile this year, prompted by the difficulties of sticking to International Monetary Fund austerity programmes.

In Brazil there have been massive street demonstrations in support of direct elections to the presidency that reflect the underlying disenchantment of the average Brazilian about the economic situation of his country. And Argentina is locked in tortuous negotiation with the IMF in an effort to find an austerity programme tough enough to deal with inflation of 480 per cent but still acceptable to the voters who gave President Raul Alfonsin a sweeping majority last year.

Little has done more to crystallise the unease about the present situation than the $500m rescue package launched for Argentina by another large debtor, Mexico, at the end of March.

This was the first time a group of debtors seized the initiative from creditor banks and governments since the debt crisis started. Mexico and Venezuela each contributed $100m to the package, Colombia and Brazil $50m apiece. As part of the deal leading creditor banks were forced to put up $100m at a very low interest margin in a conspicuous reversal of the hard line they had previously taken against lending to Argentina before the implementation of a proper IMF adjustment programme.

True, the bank loan was effectively secured by Argentine deposits at the Federal Reserve and Argentina put up a further $100m of its own money to help reduce interest arrears. But, at least in Europe, bankers and officials argued that there was no escaping the conclusion that the balance of power had shifted in favour of the debtors as a result of the package.

With hindsight it is not surprising that the debtors should now be becoming more demanding. In the two years since Mexico first told the world it could not repay its debts, banks have become used to living with crisis. As the various ad hoc rescue packages for countries in trouble have worked in staving off the immediate threat of default the sense of immediate calamity has lifted. Debtor governments are no longer concerned with day-to-day survival. Instead they are looking more carefully at ways of securing the longer term solvency of their countries in a difficult world.

So far the price that most have paid has been a heavy one. Almost all debtors forced to reschedule their debts have notched up large surpluses on their visible trade. More than anything else this has been achieved by a savage cut in imports. The U.S. bank, Morgan Guaranty Trust, calculates that the seven largest borrowers in Latin America cut their imports last year by 42 per cent on the level prevailing before the crisis broke in 1981. On the other side of the world the Philippines cut its own imports by 20 per cent in the first quarter of this year compared with their level of the same quarter of 1983. Only at the expense of lower imports and lower living standards have the countries concerned been able to find enough cash to keep interest flowing to their commercial bank creditors.

High margins

This, argue many of them, is particularly unfair at a time when banks themselves have been charging high margins and fat fees for rescheduling old debts and providing new loans. The banks themselves have taken this point on board. As a result one of the main debt developments this year has been a trimming of interest margins. Mexico, for example, is paying 1¼ per cent above U.S. prime for its $3.8bn credit signed at the end of April compared with 2¼ on the $5bn loan arranged last year. The margin over eurodollars has also been cut to 1½ per cent from 2¼. Now, as Argentina's case begins to press, this process of trimming the margins seems likely to accelerate.

Argentina's government is trying to break new ground in the debt crisis by reopening the agreements reached last year by the former military regime for the rescheduling of some $7bn in debt falling due in 1982 and 1983. It wants the margins cut from their established level of 2¼ per cent above Eurodollar rates and 2 per cent above U.S. prime and the maturity extended beyond the presently agreed seven years. If it succeeds—and everything in this respect depends on its ability to reach a satisfactory understanding with the IMF—a precedent will have been set for other borrowers to reopen their own bank rescheduling arrangements and press for better terms. Banks would have to accept that their profits from such deals would drop markedly.

It is hard to see how far the banks would be prepared to go in this respect. While there is general sympathy among senior bankers from leading international banks for the plight of the borrowers, the smaller creditors whose assent to lower margins would be vital are less concerned with the overall well-being of the financial system and the final ability of debtor nations to cope with their debts. It has never been easy for the borrowers to syndicate new loans from all their bank creditors. Mexico's recent $3.8bn took about three months longer than expected to complete despite the fact that its economic recovery since the outbreak of crisis has been impressive. After putting up with months of late interest payments from Argentina, smaller banks are likely to be far from happy about contributing to a new loan.

Major flaw

Banks in the Middle East, for example, which came to international lending rather late in the day have much less tied up in the developing world than some of their big U.S., European or Japanese counterparts. They could afford to write off their loans to Latin America without completely eroding their capital base, and many would apparently prefer to do this rather than throw "good money after bad" simply to keep the debtors on the rails. This is still the major flaw in the ad hoc rescue packages that have served the financial system so well in overcoming the debt crisis until now.

Awareness of this problem is increasingly causing bigger banks in Europe to have second thoughts about pursuing the ad hoc policy of solving the debt problem. Many senior bankers in Europe feel the days of forced lending simply to provide cash for debtors to pay interest are numbered. However, in the U.S. banks are constrained by regulatory requirements that could force them to write off their loans to developing countries if interest at a full market rate is not paid on time. There have thus been increasing signs of strain as European bankers urge a more radical approach to debt problems, while U.S. bankers insist on continuing down the orthodox path of lending to cover interest due.

At the moment no substitute has been found for the ad hoc approach which has dominated creditors' response to the debt crisis so far. This approach first requires the debtor to work out a programme with the International Monetary Fund to set its economy back on the rails and restore its balance of payments to manageable levels. Then creditors, which may include governments, are asked to reschedule maturing debt and to put up enough fresh cash to fill the remaining financing gap. In a number of countries this type of formula is expected to be needed for several years while debt service is reduced to manageable levels.

Already there have been noticeable signs of progress in some cases. Peru and Yugoslavia have not asked commercial banks for fresh credit this year, and Mexico has cut its requirement to $3.8bn from $5bn. Chile has reduced its requirement to $780m from $1.3bn, and if all goes well the total should be cut further next year. Other ways are being gradually sought of channelling capital to developing countries. Debtors are being encouraged, for example, to open their doors wider to foreign investment which is preferable to notching up additional debt because it carries no repayment obligation.

Banks are also being encouraged by the authorities of creditor nations to consider multi-year rescheduling operations. One such case is Poland which has recently agreed in principle with its creditor banks to reschedule all debt falling due between now and 1987. The idea is to remove the uncertainty that always hangs over an annual series of separate negotiations. In this way, bankers argue, the ground can be prepared for more normal financial relations between a country and its creditors which should make it easier for the debtor to raise short-term trade credit as his economy recovers.

Most central bankers still insist that measures such as these will be enough gradually to float the debtors away from the shoals of default. Indeed in their public utterances they often remind banks of their responsibility to continue lending. Dr Willy De Clercq, Belgium's Finance Minister and chairman of the IMF's policy-making Interim Committee, told an audience of commercial bankers recently that the debt crisis was manageable so long as they were prepared to increase their lending by 5 per cent annually through the rest of the decade. On the same occasion Mr Wim Duisenberg, governor of the Dutch central bank, warned that the IMF itself and other official institutions had reached the limit of their ability to step in with extra cash. "I must warn against too great expectations of what the national monetary authorities and the international financial organisations can do," he said. "They should not attempt to take over the rôle of private creditors in the financial system."

Key questions

But will the banks be prepared to carry on lending in this way? And will the debtors be prepared to put up with austerity for several years ahead? A great deal depends on how long the world economic recovery continues. Strong recovery will help debtor countries build up their exports and boost confidence among banks in their ability to repay debts eventually. If the recovery falters or industrial nations yield too far to the temptation of protectionism there is little doubt that the debtors would find the IMF's austerity medicine all the harder to swallow. Even more so if interest rates remain high in real terms.

Meanwhile creditors and debtors alike are looking to Argentina as a pointer to the future direction of the crisis. With total debts of $43.6bn, Argentina is the third largest debtor in Latin America and its decisions are bound to set a precedent for other borrowers. So far the government of President Raul Alfonsin is having great difficulty reaching agreement with the IMF. It missed the first deadline of April 30 set out as part of the end-March emergency rescue package. If it decides to dispense with the IMF altogether, other borrowers might well be tempted to follow suit. If it agrees to an IMF programme, banks are bound to come under severe pressure to make major concessions on the terms of their rescheduling. And those concessions may well not prove palatable to smaller creditors. Either way a testing time looms for creditor and debtor alike.

A common approach is slow to emerge

AN INTERNATIONALLY accepted solution to accounting for problem loans and sovereign debt seems as remote as the prospect of LDCs resolving their economic problems and repaying all outstanding loans.

The last year has seen some notable steps forward by accountants, fiscal and banking regulatory authorities in providing guidance to banks on this vexed question. *But there are still great variations between countries* and banks.

Accounting

ALISON HOGAN

The debt crises in recent years of countries such as Poland, and parts of Latin America have particularly highlighted the problem of accounting for sovereign debt. The real prospect of a country going bankrupt and repudiating all its debts is a recent one and not a scenario for which banks have provided.

Guidance on this subject from national and international bank regulatory bodies is sensitive because of the political dimension. Various approaches have been taken to ensure that appropriate provisions are made, without publicly naming a black list of countries thought to be insolvent.

A bank's accounting policy can be affected by the bank regulatory authority which in its role of prudential supervisor may recommend more or less specific provisions for bad debt. The tax authority influences the bank in its attitude to *what provisions will be tax deductible*. The accountant assists in the presentation of figures in the published report and accounts.

The degree of financial disclosure varies enormously. In the U.S., banks provide quite detailed and specific information about their international loans, but they are not required to make major provisions against those debts.

In Switzerland, the banks are very conservative. Their reserves may include a full amount for all rescheduled debts, but information about the international debt is scant.

The U.S. federal banking agencies are tightening up on certain key disclosures by banks, and introducing new ones, according to Mr Colin Brown, of chartered accountants Price Waterhouse. He welcomes some broadly-based categorisation of sovereign states against which special provisions should be laid down.

Three categories have been proposed by the U.S. banking agencies: countries with "transfer risk problems," with "substandard" loans or "value impaired" loans. Against the latter category, specific countries have been named, Zaire, Sudan, Nicaragua, Poland and Bolivia. They are also working on plans to increase the capital ratios of U.S. banks.

The Bank Inspection Board in Sweden has provided one of the most specific recommendations on dealing with problem loans, stipulating percentages against named countries. Poland is *thought to have been rated at* over 50 per cent while Latin American countries including Argentina, Brazil and Mexico are around half that level. The provisions are tax free, but Sweden's bad debt exposure is not onerous.

Responsive

Banks are likely to be more responsive to building up reserves against international debt exposure if the provisions are tax deductible. Switzerland has very generous rules (though they vary in detail from canton to canton). All specific provisions and most of the general provisions are tax deductible. The provisions are, however, very high, averaging around 20 per cent against problem countries.

In West Germany, banks have considerable flexibility in deciding which loans to provide against, though the Bundesbank has been taking a much more conservative line of late. The banks have to assess whether a provision is specific and tax deductible.

Only five years later will the tax authorities conduct an audit and decide whether it agrees with the assessment. The authorities queried the decision of a German branch of a U.S. bank to judge a debt in Poland as tax deductible in 1982. The case was taken to court and the bank won.

In March, 1983, the Japanese Ministry of Finance's Banking Department issued a circular which set out to define a "problem" country and to recommend a level of general loan loss reserves which banks should set up.

The so-called "provision for specific overseas loans" would be included in the figure of loan loss provision in the income statement and in the total of loan loss reserves in the balance sheet. This is the first time that Japanese banks have been allowed to set up reserves against country risks. They will not be tax deductible.

Problem countries are defined as those which have delayed repayment of principal and/or interest on government loans from private financial institutions; which have concluded rescheduling negotiations for such government loans within the past five years or are in the process of rescheduling such loans without so far reaching a successful conclusion.

Private sector loans are eligible for the reserve as well as government loans, according to IBCA Banking Analysis. The amount to be provided ranges from 1 per cent to 5 per cent of the element of the loan at the end of an accounting period, the doubtful nature of which "may be attributed to the political or economic situation" of the countries in question.

The amount of reserves is expected to be small in relation to those set up by banks in other countries.

Spain is the latest country to issue guidelines which might contribute to a gradual resolu-

CONTINUED ON NEXT PAGE

The LDC crisis has provoked a major re-examination of the role of international institutions. Events of the last years have thrown up many important questions

Calmer waters ahead

AFTER TWO extremely turbulent years, the International Monetary Fund seems to have emerged into relatively calmer waters.

The most striking evidence of this was that the major industrial powers tried unsuccessfully to avoid holding the last Interim Committee meeting in Washington in April, because they thought there would be nothing on the agenda worth discussing.

IMF

MAX WILKINSON

However, the events of the last two years have thrown up many important questions which remain to be resolved.

Since the Fund's annual meeting in Washington in September 1982 when the world debt crisis became, so to speak, "official," the IMF has played a remarkably successful role in cajoling, persuading and almost forcing commercial banks to continue lending to the major debtor nations, while at the same time imposing strict financial disciplines on the debtor governments.

Each major debt rescheduling operation from the Mexican deal in 1982 to Brazil a year later and, most recently, Argentina produced moments of cliff-hanging suspense and a very real sense of vertigo for the central banks.

As the IMF's techniques have become more seasoned it has, like an experienced climber, induced a growing confidence among the commercial and central banks which are following its lead. But the difficulties are not much diminished and could with a little bad luck, become much more severe.

The big test

The first big test in 1982 was whether the IMF could command the authority needed to prevent Mexico's huge debt problems from collapsing into some form of default and a major loss of confidence in the banking system.

Although the Fund had successfully found a way through serious debt problems before, Mexico's difficulties were in many respects much more acute.

There was some doubt in September 1982, whether the Fund would be able to impose any sensible set of conditions on the country, and more generally, a scepticism as to whether the conditions would prove to be effective in reducing the country's needs for foreign borrowing to finance its trade deficit.

Now, two years later, Mexico is seen as relatively speaking a success story. This fact was rather curiously underlined on March 30 this year when it took a leading part in a $500m loan to "rescue" Argentina from failing to meet its deadline for payment of interest arrears to U.S. banks.

After the IMF's success with the Mexican rescheduling, the $6.5bn rescheduling of Brazil's debt in the autumn of 1983 seemed a comparatively smooth operation. Although there were certainly tense moments, there was little doubt among ministers and central bankers at the Fund's annual meeting last September that Brazil's debt burden would be successfully hauled up the next stage of the cliff face.

The anxieties by then had turned much more on to the Fund's financial abilities to take the strain which a long succession of reschedulings was imposing upon it.

It was already clear in the autumn of 1982 that the Fund would need extra resources, and a general consensus among the developed nations had emerged that this should be provided by an increase in quota subscriptions rather than from market borrowing. The Mexican debt crisis had dramatically changed the view of the U.S. Administration which had earlier in the year been opposing any increase in subscriptions.

Faced with the possibility of a crash which would involve its own leading banks, the U.S. agreed to a 50 per cent increase in the Fund's resources via a quota increase and a widening of the General Arrangements to Borrow (GAB).

The GAB, which had previously been for the mutual support of the 10 richest nations was hitherto to be extended to underpin the Fund's lending to any members if necessary.

Soon after this agreement was reached at a rather tense meeting of the Interim Committee in a snowbound Washington in February last year, it was evident that the Fund would need yet more resources.

The U.S. said flatly that it could not get authorisation for any more support through a reluctant Congress. A $6bn loan was, therefore, put together consisting of $3bn from the remaining industrial countries and $3bn from Saudi Arabia, and there was some optimism that this would be formally agreed by the Central Banks involved in the late summer of last year.

Unfortunately there was then a growing fear that the U.S. Congress might refuse to ratify the quota increase which the administration had agreed earlier in the year. The Central banks therefore held back on their half of the $6bn loan and Saudi Arabia naturally followed suit.

The IMF's annual meeting in 1983 was therefore faced with the rather extraordinary possibility that the Fund itself would run into financial difficulties, with incalculable consequences for the world's financial markets.

Although this never seemed a likely outcome it was alarming enough to persuade President Reagan to risk making a stirring speech in which he staked his full presidential authority on the need to persuade Congress to see sense.

Congress belatedly approved the increase, but the IMF's troubles were not over. Saudi Arabia had become anxious about the gap between the likely calls on the Fund's resources and the U.S. Administration's ability to deliver support. It appeared in short to be thinking some hitherto unthinkable thoughts about the credit-worthiness of the Fund.

It sought some form of guarantee in gold. The exact nature of Saudi Arabia's demands has not been disclosed, but the eventual agreement, after a lengthy legal process included an undertaking by the Fund that it would not dispose of its gold reserves.

Agreement

By the time of the interim committee in April, therefore, the Fund's finances seemed secure. And there was tacit agreement among the major countries that most of the pressing questions about future debt reschedulings would be better discussed in more private gatherings of central bankers and ministers.

It was enough at the IMF meeting to reconfirm the general strategy of considering each country's problems, case by case, with the IMF pledged to maintain a firm line in setting the conditions for economic reform as a condition for its loans.

Since an IMF programme had become effectively the talisman to unlock further commercial bank lending, the Fund remains at the hub of all rescheduling operations.

Nevertheless, it has become increasingly recognised that the present policy of staggering from rescheduling to rescheduling cannot go on indefinitely. Many proposals have been floated for easing the burden of intest rates, giving the World Bank a wider role, or encouraging the flow of equity capital into the developing world.

However, there seems at present to be little stomach for a revolutionary approach, and it seems that for a long time to come, the IMF will remain at the centre of the stage in something very like its present role.

Aid in long-term development

World Bank

PETER MONTAGNON

BY COMPARISON with the International Monetary Fund the World Bank has so far taken a back seat role in working towards a solution to the developing country debt crisis. Though the two are sister organisations, this fact reflects a fundamental difference in their aims and outlook.

The IMF is primarily concerned with solving short-term balance of payments problems of its member countries. Because of this it is normally the first port of call of a country which suddenly finds it can no longer finance its balance of payments deficit. By contrast the World Bank is a long-term development bank whose structure is geared towards the provision of capital for major projects to improve a country's long-run economic potential.

The World Bank has thus never been in the business of providing emergency financial assistance and it lacks the resources to do so. Many economists have urged it to take a more active role in contributing towards the solution of the crisis but it could not easily do so without a radical change in its structure. In the process, some bank officials argue, there would be a risk that it would lose sight of its long-term purpose and there is little doubt that even after the immediate debt problems are resolved there would still be a need for long-term development lending from the World Bank and other regional development banks.

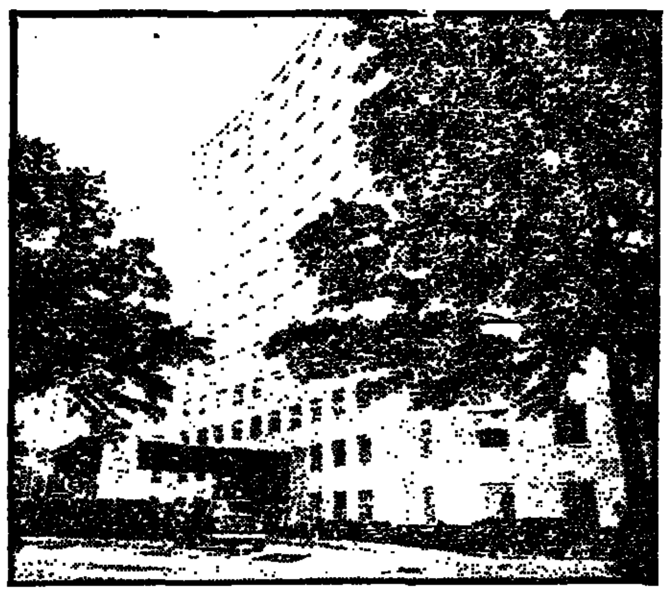
In fact the shortage of foreign exchange and domestic budgetary resources experienced by most countries with debt difficulties has made it even harder for the World Bank to come to their aid. World Bank lending is almost invariably associated with a development project—for example a power station or a highway development or an irrigation scheme to boost agricultural yields.

The Bank normally requires a borrower country to put up a certain proportion of the costs itself. This has become all the harder when its own financial resources are squeezed and when projects are being scrapped or delayed in order to reduce budget deficits in line with the requirements of an IMF austerity programme.

Resources

None the less the World Bank has been working hard to find ways of channelling increased resources to the countries most in need. With borrowers in Latin America it has looked at ways of speeding up disbursements of loans for existing projects to ease pressure on their short-term foreign exchange cash flow. It is also considering the possibility of setting up a special affiliate which could work in conjunction with private commercial banks to stimulate a greater flow of private capital to the developing world.

Lending by the World Bank to developing countries has also risen sharply in the two years since the debt crisis started. In its fiscal year ended June 30 1983 the bank approved $11.1bn in new loans compared with $10.3bn and $8.8bn in fiscal 1982 and 1981 respectively. Disbursements rose to $6.8bn from $6.3bn and $5.1bn respectively.



Glyn Genin

Headquarters of the World Bank in Washington, DC

By far the most conspicuous of its attempts to help developing countries has, however, been its new push to co-operate with commercial banks in co-financing of projects. Under its co-financing scheme the World Bank joins with commercial banks to provide loans for a given project. The hope is that banks will thereby be persuaded to lend more to the country concerned and for longer periods than would otherwise have been the case.

Currently the World Bank is working on its fourth major co-financing scheme under this new arrangement. It is joining with commercial banks to provide a total of $350m for industrial and energy projects in Hungary. Of this $35m is to be provided by the Bank itself.

In addition the Bank is to provide the equivalent of $13m for a $100m loan in yen for the same projects. The total cost of the projects is expected to be $839m, of which $139m will come from local sources and a further $200m from a separate World Bank loan in which the commercial banks will not participate.

This is the World Bank's second major co-financing for Hungary. It has also arranged similar loans for Colombia and Thailand. In each case one of its most important objectives has been to increase not only the availability of funds but also the maturity at which they are lent. For its latest Hungarian loan the Bank is putting in funds at a maturity of 10 years compared with the eight-year maturity on the portion to be provided by commercial banks.

There seems little doubt that lending by the World Bank is set to increase substantially in the years ahead. Some economists place great store on its structural adjustment loans which are not tied to any particular project but intended to finance a general improvement in the structure of a debtor's economy. Through its affiliate the International Finance Corporation the Bank is also actively engaged in helping promote flows of investment capital to the developing world. As the immediate debt emergency is patched up it seems likely that this type of operation will grow in importance—and with it the contribution that the World Bank can make to a longer term solution to the crisis.

Attitudes on accounting

CONTINUED FROM PREVIOUS PAGE

tion of the problems of LDC reserve accounting. The Spanish Central Bank issued a draft circular on reserve requirements for problem loans. No decision has been taken as to whether such reserves will be tax deductible.

It proposes specific percentages to be taken according to the classification of a country risk. The circular stops short of naming countries but provides a description of the type of risk for each classification against which the bank then chooses to slot in each country where it has an exposure.

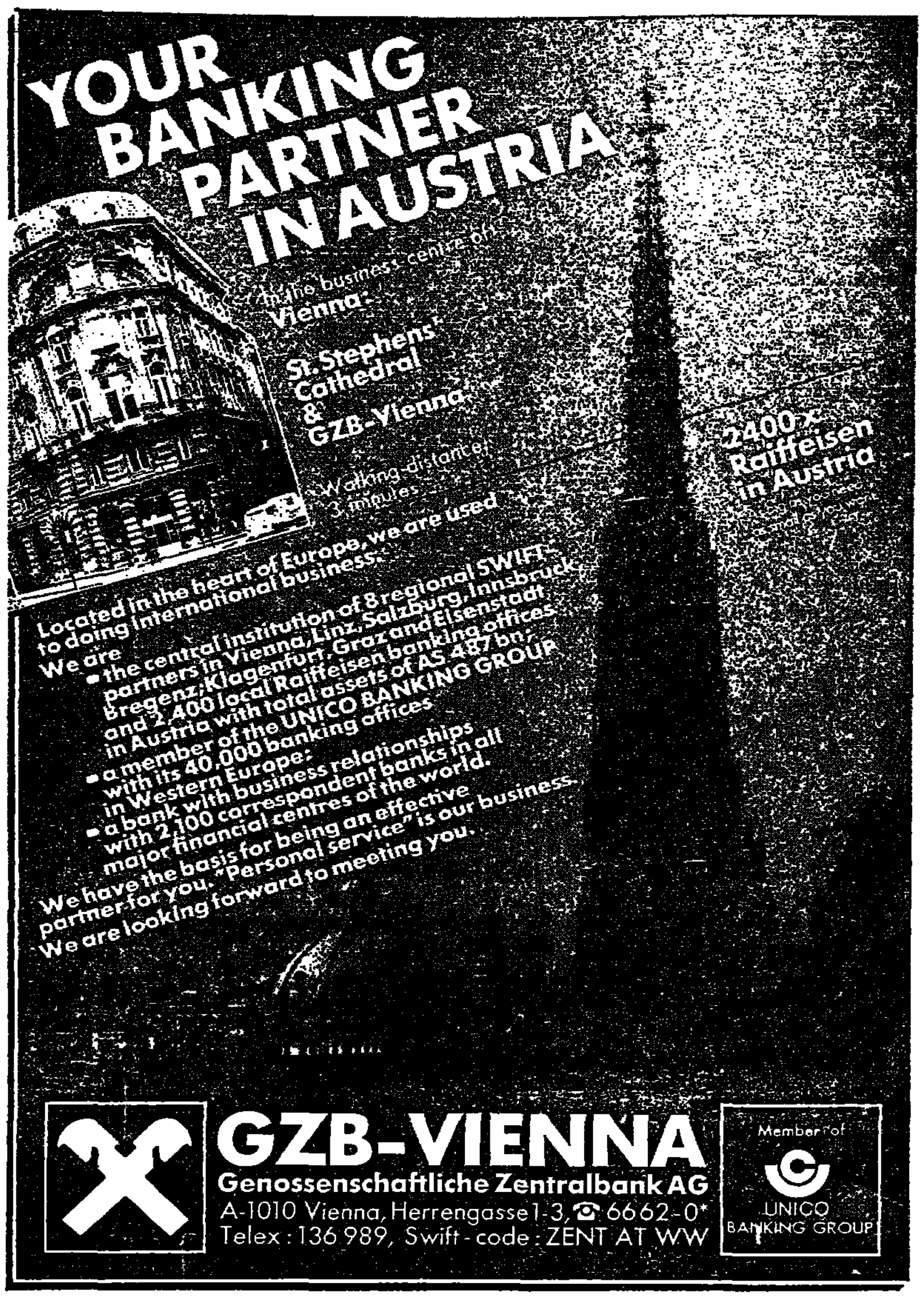
The Central Bank can then monitor the banks' response and unofficially obtain reclassification of country debts where advantage is being taken of this flexible system.

In the UK, the attitude of the Bank of England has always been a low key one of suasion, rather than issuing detailed regulations. Similarly, the Inland Revenue has also held back from defining what country-risk debts are eligible for specific as opposed to general provisions, thereby becoming tax deductible.

A large degree of discretion appears to rest with the individual inspector of taxes, though the Revenue says it wishes inspectors to apply tax principles in a consistent way. The Revenue reiterated its principles to the British banks in January, 1983. It said that the bank has to decide on the amount of any specific provisions and to justify such provisions for tax purposes.

Robin Munro-Wilson of IBCA Banking Analysis which monitors the report and accounts of most banks, welcomes the improvements in disclosure that have appeared in recent years. But he still feels there is a long way to go. Provisions, he said, are still geared more to what a bank can afford, rather than what it might need.

"There are vast inconsistencies between banks and countries but we are beginning to see a trend of convergence," he said.



Here and on the facing page, FT correspondents analyse the latest trends in the world's major financial markets

International powerhouse

THE INTERNATIONAL interbank market, in which banks lend each other their surplus cash, has never been far from the limelight since the developing country debt crisis broke in 1982. With a total outstanding value of well over $1,000bn it is the powerhouse of international banking.

Interbank market

PETER MONTAGNON

Banks draw on it to finance their international loans. Without it their ability to raise cash to meet passing needs for extra liquidity would be seriously impaired. And the banking system would never have been able to finance the huge debts of countries such as Brazil and Mexico if the surplus funds of oil exporting countries had not spread through the interbank market to smaller banks in almost every corner of the world.

Paradoxically for a market which is so central to the operation of the international banking system, it has thrived and prospered on a very informal and unregulated basis. Hundreds of millions of dollars change hands by the minute on the basis of simple telephone calls between dealers. It only works because each participating bank has an inherent trust in other banks' ability and willingness to repay—and that trust has been sorely tried by the debt crisis.

Big question

From the very moment that Mexico declared itself unable to repay its foreign debts in August 1982 two problems were uppermost in the minds of bankers in the interbank market. If Mexico could not repay them, how were they to repay the other banks from whom they had borrowed to lend to Mexico?

Secondly, if Mexican banks which had borrowed about $6bn in the interbank market refused to repay their interbank deposits, how was the system of trust on which the market depends for its survival to be maintained? The nervous system of international banking seemed to have come under threat from what was happening in Mexico.

For the world's monetary authorities this was one of the most delicate moments of the debt crisis. It was vital to keep enough confidence in the interbank market alive to ensure that the banking system did not simply seize up. Equally, many central bankers felt that the unbridled growth of the interbank market during the 1970s had in part been to blame for the crisis. Without it lending to developing countries simply would not have been able to grow at an exponential rate.

In other words, the best they could hope for was a slow return to earth of the interbank market. There could be no going back to the unhealthy growth rates of the past—and some smaller operators who had relied on the market to expand too fast in international banking might simply have to withdraw from the market. At the same time, funds had to be kept moving freely so that the banking system as a whole could play its part in helping to rebuild the solvency of the debtor nations.

As luck would have it this is largely what has happened. After a period of contraction in the interbank market some growth has now returned. And there have been no spectacular failures of large institutions as a result of a run on deposits they have taken from other banks in the interbank market.

But the process of coming down to earth has been painful and difficult. Banks have had to learn many difficult lessons, and central banks have at times had to use all their powers of persuasion to keep the market functioning as normally as possible.

One of the most important changes in the market over the past two years has been a new awareness on the part of banks about the nature of the risks they are running in lending to banks from another country. Before the debt crisis broke an international bank operating in London considered it perfectly safe to lend, for example, to the London branch of the Banco do Brasil. After all the Banco do Brasil is a large bank that had always paid its deposits back on time.

When it became clear that Brazil, too, was likely to reschedule its foreign debt, confidence in the Banco do Brasil slipped to the point where many creditors tried to withdraw their money. As a result the Banco do Brasil could no longer repay all its depositors and ways had to be found to keep them from withdrawing their cash. A new element of country risk had appeared in the interbank market.

Recently, this question of country risk has taken on a new dimension still. With the decision of the Philippines to seek a rescheduling of its $25bn foreign debt last October, exchange controls were introduced that effectively froze about $600m of deposits held by Citibank's branch in Manila. The branch itself could not repay them without infringing the controls and Citibank's head office in New York claimed that it was not responsible for them because they were effectively Philippine risk.

Here was a case of a U.S. bank which was in itself perfectly sound claiming it could not repay deposits because of a localised problem in another country which happened to have run into a severe squeeze on its foreign exchange liquidity.

Court action

At the moment the Citibank is subject to legal dispute in the U.S. and Philippine courts. No one knows what precedents the judgment will set and it may well be that a compromise between the banks concerned will prevent the establishment of a precedent anyway.

But one thing is clear. Banks generally have become much more cautious in their dealings with other banks. Institutions from developing countries or the branches of major banks located in countries where exchange controls might be imposed will find it much harder to attract deposits.

As a result the interbank market itself is becoming concentrated much more on established banks in established financial centres. The rapid growth of even some of the less exotic offshore centres has slowed, and although their market has survived the worst ravages of the debt crisis, interbank money market dealers have become much more sobre minded people than they were two years ago.

U.S. merger mania boosts business

THE EUROCREDIT market has had slow and difficult start to 1984 despite volume figures suggesting new business doubled in the first quarter of the year

According to the U.S. bank, Morgan Guaranty Trust, new Eurocurrency bank credits during the first quarter totalled $50.1bn compared with only $25.8bn in the same period of 1983 but of this total no less than $35.2bn was raised by borrowers in the U.S. compared with $1.2bn in the same 1982 period. Borrowing by the rest of the world fell to $14.9bn from $24.7bn.

Euromarkets and syndicated loans

MARY ANN SIEGHART

U.S. business was bloated in the first quarter by two very large loans, both of which were raised in connection with the bidding for Gulf Oil. Atlantic Richfield raised $12bn and Standard Oil of California $14bn.

The latter operation is now the largest single bank loan ever arranged, but it hardly represents bread and butter business for the eurocredit market.

This is not the first time that an outbreak of merger mania on Wall Street has sparked off a major burst of eurocredit business. In the summer of 1981 several large credits were arranged for oil companies and this drove total new business for the year to a record $133.4bn.

Then as now, however, the figures distorted the true underlying level of market activity.

This time round the underlying level of business is very low. First quarter totals were further boosted by the $6.5bn jumbo loan arranged for Brazil in connection with this year's rescheduling. That left less than $10bn of new voluntary business to be done outside the U.S.

New business prospects in the eurocredit market have been hit on two fronts at once. Many developing country borrowers, especially those in Latin America, are now in the process of rescheduling their debts.

Except for the better performing countries of the Far East, banks have little appetite left for business with those that are not rescheduling. Elsewhere the bond market has stolen away much bread and butter business with industrialised countries by offering cheaper finance in the form of Floating Rate Notes.

Among traditional major borrowers Sweden, which raised $2bn in the first quarter of 1983, took no new syndicated credits at all in the same period of this year. Denmark took only $18m compared with $1.3bn. France cut its offtake by $450m, Italy by more than $100m and Spain by nearly $400m.

In all these countries an improvement in the balance of payments has reduced the need for funds, quite apart from the competition now being generated in other markets.

All this has led banks in the eurocredit market to soften the terms they seek from borrowers. The margin over the expensive U.S. prime rate has all but disappeared from the market.

Greece, which is regarded as one of the weaker European credits, was able to offer a $350m loan in March at a margin of ⅝ points over London eurodollar rates.

Despite the absence of an alternative margin over the lucrative prime rate the loan was increased to $400m. For top rate credits margins of less than ½ per cent, which disappeared after the debt crisis broke, have now become the norm. And maturities are also increasing as market conditions tilt in favour of borrowers.

Prospects

The latest loan by Gaz de France bears a life of 12 years, which is exceptionally long by European standards.

For the time being, however, there seems to be little prospect that such attractive terms will entice an increasing flow of borrowers back to the market. Instead some are using the more favourable market conditions to renegotiate the terms of existing loans in their favour.

Ireland started the ball rolling in February with a request for better terms on a $500m credit that was signed as recently as June last year. It wanted the maturity of the credit extended to nine years from seven, the eurodollar margins cut by ¼ point and the prime margin cut to only 0.05 per cent from 0.25 per cent.

Despite an initial storm most of the banks in the syndicate were expected to agree to the proposal after some modifications to soften its harshest aspect.

Not long afterward, Hydro-Quebec, the Canadian utility, also sought better terms on part of a $1.25bn loan arranged in 1980. Its approach was regarded as less controversial than that of Ireland, partly because it was seeking to renegotiate an older borrowing.

But, in the meantime, banks have also come to the painful conclusion that borrowers who feel their loans are too expensive can always pay them back early and refinance in the cheaper floating-rate note market. That means that unless requests for renegotiation can be accommodated, banks simply stand to lose some existing business as well as facing problems finding new customers for their loans.

Even though the Floating Rate note market is no longer as buoyant as it was, banks are now grimly hanging on to what they have got in the syndicated loan market in the hope that it will be enough to keep them going till better times come round again.

Battle to attract investors

THIS LAST year has been rocky for the Eurobond market and banks involved in it. Though $58bn worth of new issues were launched between May 1983 and May 1984 interest rates tended to rise rather than fall and banks were involved in a constant struggle to tempt investors into the market.

Eurobonds

MARY ANN SIEGHART

This task was made more difficult by the fact that the most popular borrowers—the top-notch U.S. corporations—stayed away from the market. U.S. borrowers only accounted for 13 per cent of the market in 1983 compared with 25 per cent the year before.

With booming equity markets, they preferred to raise what money they needed through rights issues. And because of increased profitability and generous depreciation allowances, they did not need much money anyway.

So new issue managers had the difficult task of selling Eurobonds from less interesting issuers to investors who were keener to take a punt on the stock markets instead.

The obvious solution was to issue bonds with an equity content. These were either convertibles—in which the bond itself can be converted into the borrower's shares—or bonds with warrants—where the bond pays a fixed rate of interest while the warrants can be detached to buy the shares at a certain price.

The latter were the most popular, particularly in May of last year. Prices of bonds with warrants soared and then collapsed almost as quickly. Deutsche Bank's deal, for instance, fell from a price of 120 to 104 in one day. Investors suddenly cottoned on to the fact that they were being asked to pay unrealistic prices for the option to buy shares.

Markets then went through a fallow patch in the summer. In both the dollar and D-mark sectors, interest rates crept up and prices of bonds fell. New issues were scarce and those that did appear did not excite investor interest.

The main exception was a record-breaking floating rate note (FRN) for the European Economic Community led by Credit Suisse First Boston (CSFB). At $1.5bn, it was the biggest Eurobond ever, the previous record being $1.2bn for Sweden in January of last year.

But demand was so strong that the amount was soon upped to $1.8bn. What CSFB realised was that the bigger the size of the issue, the better would be the demand. Investors are usually keen to buy floating rate notes only when they are sure that there will be an active market in the bond. The larger the issue, the more it will be traded.

It was this realisation that led to the boom in FRNs towards the end of 1983 and the beginning of this year. Over $7bn worth of new floaters were launched in the first two months of 1984, compared with $14bn in the whole of 1983. Nearly $2bn worth was launched in just one week of February.

Short-lived

One reason for their popularity was that rates were edging up and in periods of rising interest rates, it makes more sense to buy a floater, whose coupon will rise in line, than to lock into a fixed-rate bond whose price will fall.

But FRNs were also seen as attractive assets for banks who were short of lending opportunities. Instead of raising syndicated loans, borrowers flocked to the floater market and the investors or lenders followed suit.

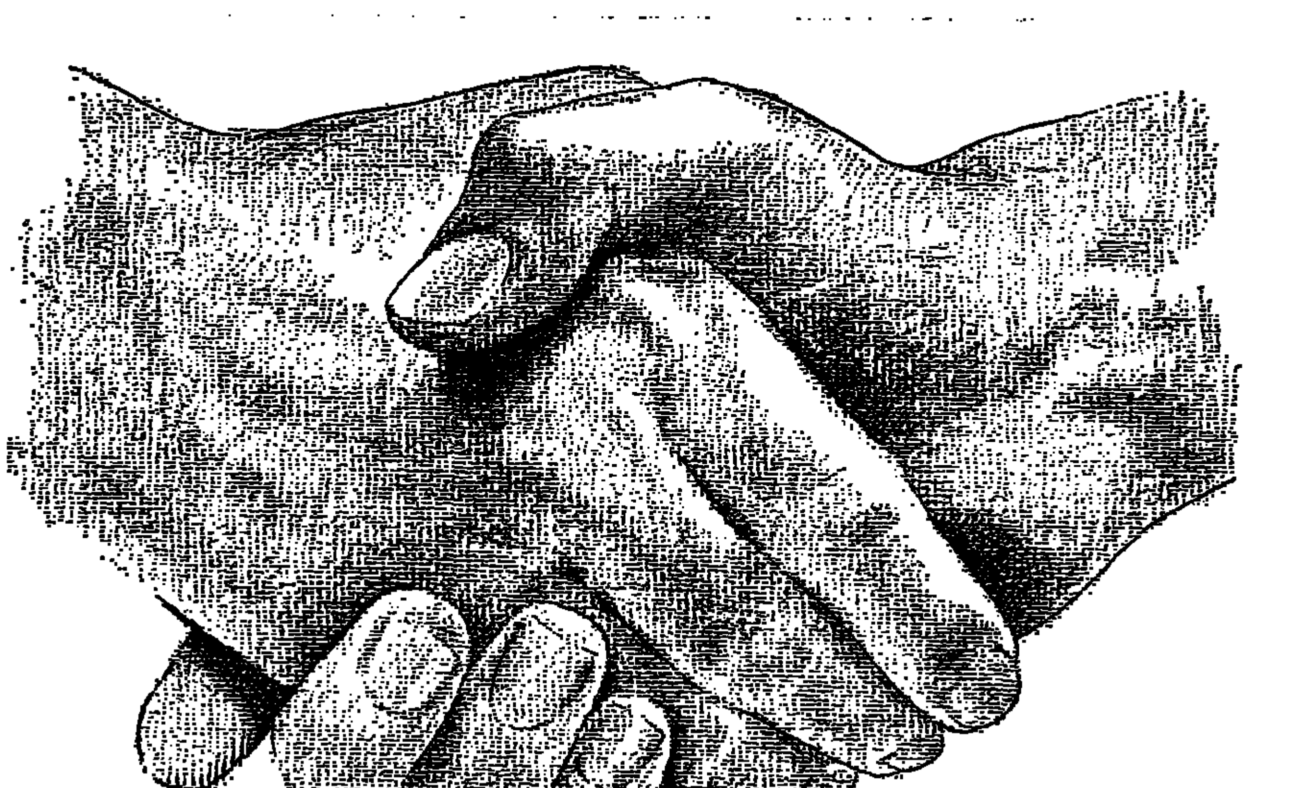
The borrowers were happy because they could raise money on cheaper terms and the lenders were prepared to accept those terms because, unlike loans, the notes were marketable.

But the FRN boom could not last for ever. The margins over Libor on new issues had become so thin that investors were hardly making money. Prices started to drift downwards—not dramatically, but enough to make people realise that floaters, too, carried the potential for capital loss.

New issues slowed down to a trickle and new issues managers realised that they had to price their bonds more realistically. Now there is a limited appetite for good names, but nothing like the demand there was in February.

Prospects for the rest of the year look grim. All the pundits expect U.S. interest rates to rise, which is bad news for the Eurobond market. And if the dollar stays high, the D-Mark sector will be doubly hit.

Secondary market traders will have to read the market very carefully in order not to lose money and new issue managers will have to bank on small new issue windows opening every now and again in order to get any business done.



Dollar's fortunes mesmerise the world markets

Foreign exchange

PHILIP STEPHENS

Economists—and journalists—should have learnt their lesson. Predictions that the dollar is about to crash seem merely to encourage foreign exchange markets to mark the U.S. currency higher.

The more cynical among forecasters now believe that the long-awaited fall in the dollar's value will come only when they finally convince themselves it is set to remain at present heights.

The only safe bet is that the dollar's fortunes will continue to mesmerise the world's financial markets for the foreseeable future.

U.S. interest rates, trade figures, inflation trends, the budget deficit, and the presidential elections are the indicators that foreign exchange dealers will be watching in coming months.

And if the evidence of the last few months is anything to go by they will be concentrating on the good news and shrugging off dire predictions of a collapse in the dollar's value.

Earlier this year Europe's central bankers and senior financial officials sat down to plan for the upheaval on currency markets which would result from the "inevitable" fall of the dollar.

There was even private talk of European governments cutting their interest rates if the U.S. currency's slide got out of hand.

Reaction

The reasoning seemed impeccable. With the dollar trading 20 per cent higher than two years earlier, the U.S. trade deficit widening by the minute, and the budget deficit defying attempts to trim it, international investors would take their profits and run.

The huge capital inflows needed to sustain an $80bn to $100bn current account deficit in 1984, and the inflationary impact of soaring Federal spending meant the dollar could go nowhere but down.

When a string of top U.S. officials, notably Mr Paul Volcker, U.S. Federal Reserve Board chairman, gave public voice to those fears, the markets appeared to take notice.

By February the dollar was sliding. For the first time in two years the forecasters seemed to have got it right and, forgetting all those past errors, were beginning to say: "We told you so."

Then the dollar bounced back. The analysis of the economists convinced the markets only briefly that they should abandon their most important lesson of the last two years — that the best way to make money is to buy dollars.

And above all, U.S. interest rates began to rise as the Federal Reserve tightened its monetary stance in response to the continuing surge of the U.S. economy.

Simultaneously, the differential between returns offered on U.S. investments and other foreign assets was increased, while Mr Volcker quietened, at least temporarily, fears that those returns would be quickly eroded by a rapid upturn in U.S. inflation.

Foreign exchange markets have thus re-established the link between high interest rates and the dollar which sustained the U.S. currency's rise through most of last year.

And predictions from economics gurus like Henry Kaufman of Salomon Brothers that rates could go "spectacularly higher" in the current business cycle reinforce it.

More recently, there has been growing confidence that the U.S. administration and Congress will agree at least a "downpayment" on reductions in the U.S. budget deficit.

So was the reasoning behind the almost universal forecast of a sharp dollar decline fatally flawed?

Many economists argue not. The predictions may have been premature but are still basically sound, they say.

It does seem extraordinary that the dollar can shrug off monthly trade deficits of around $10bn, and there are already clear signs of a resurgence of inflationary pressures in the economy.

Dollar assets in many international portfolios are also at historically high levels, suggesting that institutional investors should be slowing the flow of long-term funds into dollars.

But the financing gap which most forecasters identified at the beginning of this now seems far smaller than most predicted.

The U.S. banks have become net takers of international funds, reducing the supply of dollars available to the rest of the world, while the less developed countries of Latin America still need dollars to meet their repayments.

That, coupled with interest rate differentials in favour of the U.S. has convinced some forecasters that net capital inflows could be sufficient to sustain the dollar at a high level for the rest of this year.

A handful of economists are sticking to their prediction of a dollar crash, but most now expect a gradual decline later in the year and into 1985 as the impact of the current account deficit strengthens.

They do not discount the possibility, however, that the foreign exchange dealers could decide to switch their attention to the trade deficit sooner rather than later; nor the risk that any sign that Mr Walter Mondale is making a strong challenge for the presidency could cause a rapid loss of confidence.

And the prospects for other currencies?

Most European governments, anxious to nurture economic growth, seem intent on resisting pressures to match rises in U.S. interest rates, though whether they can further "decouple" from U.S. levels is open to question.

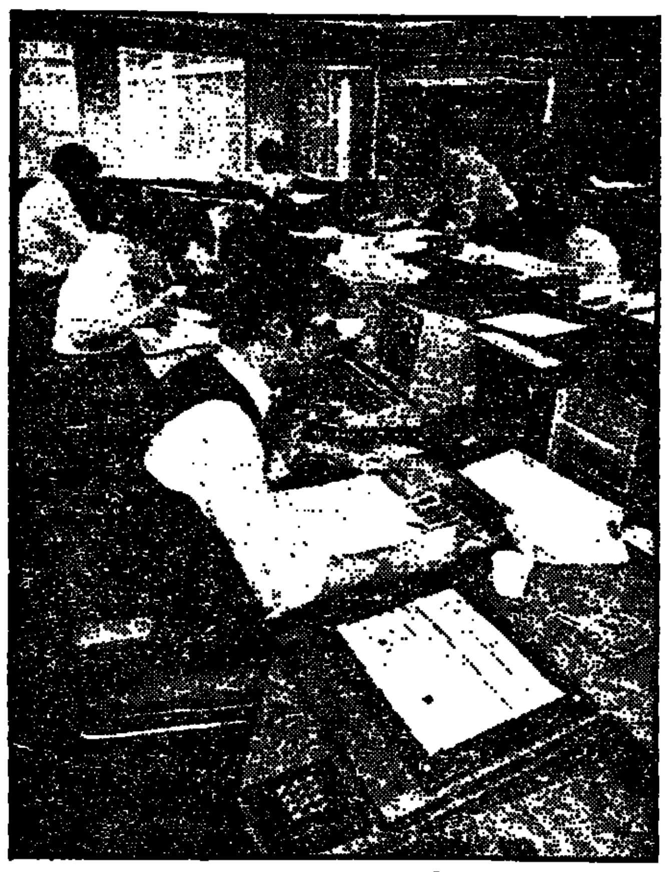
Responses

Movements in European currencies are thus likely to be essentially responses to sentiment about the dollar, but recent labour unrest in West Germany and, to a lesser extent, Britain has shown how developments in Europe can encourage dollar trends.

For most continental currencies one of the advantages of a strong dollar is that it encourages stability within the European Monetary System by weakening the value of the D-mark.

Even if the dollar does start to fall, economic convergence between the stronger and weaker EMS currencies is likely to mean that any realignment is likely to be a modest affair, with small revaluations of the D-mark and guilder, and small downward shifts for the French franc, lira, kroner and Irish punt.

Although sterling has been hit by the dollar's strength, most economists expect it to remain fairly stable against the trade-weighted basket of currencies regarded by the authorities as the key indicator of the exchange rate.



For most Continental currencies, one advantage of a strong dollar is that it encourages stability within the European Monetary System by weakening the value of the D-mark. Above: Midland Bank International dealing room in the City of London.

Why investors remain wary

LOW INFLATION, high real interest rates, booming stockmarkets and a strong dollar—there could not be a worst combination for the gold market.

And the metal's performance since its dramatic slide early last year has shown how much it has become a hostage to the economic performance of the Western world.

Gold

PHILIP STEPHENS

Flare-ups in the Middle East, tensions over nuclear missiles in Europe and guerrilla wars in Central America are no longer enough to send investors rushing into gold in times when a booming U.S. economy is leading the west into recovery.

Gold has thus been condemned to slip into the background, its lacklustre performance boosted by an occasional, but usually short-lived, fall in the dollar before it drifts lower again.

The key to its demise lies in the high interest rates offered in the U.S. in particular, and Western nations in general.

With inflation at under 5 per cent in most major economies and nominal interest rates as high as 12 per cent it is easy to see why investors shun gold.

Its disadvantage as an asset offering no dividends or interest payments has been compounded by soaring equity markets and, crucially, the seemingly unstoppable rise of the dollar.

As long as investors in U.S. securities are persuaded that a stable, or rising exchange rate for the dollar will protect their returns there is little reason to buy gold.

So what does the future hold?

Over the short-term gold's best hope of breaking out of its present price range is a sharp decline in the dollar.

That, however, appears far from certain.

Predictions earlier this year of a massive fall in the U.S. currency's value have so far proved no more than wishful thinking. Many economists now believe any decline is likely to be slow and steady.

A longer-term opportunity for the metal might come from a resurgence of inflationary pressures in world economies as recovery gathers pace.

But while there are already signs in the U.S. and other western nations that price rises will pick up towards the end of this year, only the most apocalyptic forecasts suggest anything like a return to the inflationary spirals of the 1970s.

Official gold transactions also offer little succour. The large sales by countries like Brazil, the Philippines and Portugal which have depressed prices over the last two years seem unlikely to be repeated.

But Venezuela and Argentina are both seen in the market as possible sellers in order to meet debt repayments. With oil prices still depressed, any such disposals are not expected to be matched by official purchases by Middle Eastern oil producers.

Prospects

If all this seems too depressing, there are some hopes on the horizon for those waiting to see gold regain at least some of its former glory.

The easier trend in gold prices has discouraged growth in production in many countries (although South African mines have been protected by the depreciation of the rand against the dollar). At the same time it has encouraged some pick-up in gold use for both jewellery and industry.

So even a fairly modest pick-up in investor demand should have a fairly significant impact on the price.

History is also on the side of gold. Unless the world breaks out permanently of the cyclical u-turns and recessions which have come to characterise modern economies there will always be a moment to buy gold.

It should also be noted that while the dollar price of gold is still struck below $400, its value in most other currencies has been rising in line with the dollar.

Worldwide link-ups in prospect

Financial futures

MARY ANN SIEGHART

LAST YEAR was an eventful one for financial futures. In London, the International Financial Futures Exchange (Liffe) completed its first year of trading, in the U.S., record volumes were seen, particularly in stock index contracts, and in the Far East, plans were announced to set up exchanges in Hong Kong and Singapore.

A financial future is a promise to buy or sell a financial instrument—like a bond, a currency or a basket of shares—at a fixed price within a future month. Investors can use these futures to take a view on the way the market is heading (speculation), to reduce the risk of volatility in interest rates, exchange rates or stock markets (hedging), or to take advantage of price differences between contracts or markets to make a small, virtually risk-free profit (arbitrage).

The most popular financial futures contract in the U.S., where the markets were born, is the Treasury bond contract at the Chicago Board of Trade. Last year, nearly 20m contracts changed hands, an increase of 17 per cent on 1982.

But the fastest-growing are the stock index contracts. These allow holders to bet on rises and falls in the price of shares and to hedge an equity portfolio. If a fund manager, for instance, thinks the market will fall, he can sell a futures contract instead of having to sell off some of his shares (and lose the dividend income they bring).

If he is right and the market does fall, he will probably lose money on his shares, but should be compensated for this by making a profit on the futures contract.

Last year, trading in the S & P 500 index on the Chicago Mercantile Exchange reached 8m contracts, an increase of 176 per cent on the year before. A new contract—the S & P 100—was launched and the success of these contracts has led to the launch of all sorts of spin-offs, options on stock index futures, stock index options and contracts on sub-indices, or sectors of the stock market.

The U.S. authorities are keeping a close watch on these new instruments. The Securities and Exchange Commission, the Commodities Futures Trading Commission and the Federal Reserve Bank are conducting a major study of the new products. At the same time, the SEC and CTFC are acting to slow their growth and tighten the provisions for approval.

In January, they issued guidelines for the approval of sub-index contracts. The index must contain at least 25 shares and the total market capitalisation of the companies involved must be at least $75bn.

Arguments

But these new regulations have given rise to heated arguments. The CTFC rejected five sub-index contracts planned by the Chicago Board of Trade. As a result, the exchange has initiated a law suit challenging the rules, which it describes as "arbitrary and capricious."

Liffe had problems of a different sort with its new stock index contract, based on the Financial Times—Stock Exchange 100 index, which calculates the prices of 100 leading shares once a minute.

There were problems with the treatment of the contract for stamp duty purposes and the tax treatment of many users in the UK is still uncertain.

Nevertheless, 1277 FT-SE contracts changed hands on the first day of trading in May and Mr Michael Jenkins, chief executive, expects the volume to rise to 2,000 a day by the end of the year. This obviously does not compare with Chicago volumes, but Liffe is only 18 months old and the British are not yet really used to the concept of financial futures.

Worldwide link-ups may soon be possible as the Chicago Board of Trade hopes to trade the FT-SE 100 contract and Liffe will introduce a compatible Treasury bond instrument.

Meanwhile, the Hong Kong Commodity Exchange hopes to start trading a stock index futures contract this year and the Singapore International Monetary Exchange (Simex) also expects business to begin before the end of 1984.

Rapid changes are sweeping through the financial systems of the U.S. and Canada following reforms, and the advent of new technology and competitors

Major banks spearhead era of massive re-organisation

The U.S. financial services industry is in the midst of a period of sweeping structural, regulatory and competition-driven change. The major U.S. commercial banks are in the forefront of this massive re-organisation.

For half a century the business of banking in the U.S. has been governed principally by two twin regulatory pillars—the Glass-Steagall Act separates commercial banking from insurance and the securities industry, and the McFadden Act which restricts interstate banking.

The U.S.

PAUL TAYLOR

Within this regulatory framework the U.S. banking industry, with notable exceptions, has flourished. With over 14,000 banks across the nation, America has been called "the most over-banked nation in the world."

But under the impact of interest rate deregulation, new products and new competitors this cosy framework is crumbling. Today, it is possible to buy car insurance in a Bank of America branch in California, sell stocks through most major bank branches, withdraw funds through nationwide automated teller machine (ATM) networks or arrange a mortgage in California, Florida or Illinois from the New York-based Citicorp group.

The lifting of virtually all interest rate ceilings throughout the industry over the past two years has fundamentally changed the nature of consumer banking in the U.S. and fuelled the search by U.S. banking groups for a larger deposit base and loopholes in existing legislation which will allow them to offer a wider range of products.

As a result most senior bankers and industry experts see substantial further deregulation — with or without congressional action—by the end of the decade.

Divisions

But, despite this, the banking industry, the regulators, individual state legislatures and congress remain divided over the fundamental issues that deregulation raises. Specifically, the industry is split over whether product deregulation—the ability to offer an extended range of products through a bank branch network—should take precedence over federal action to more clearly define what is a bank and where in the U.S. a bank can operate.

The smaller banks, fearful of the power of the money center banks, generally see product deregulations as the priority while the major banks are most keen to expand the geographic boundaries.

In the midst of it all, the regulators are trying to work out a new framework governing spheres of influence and responsibilities.

●Product deregulation. While Congress mulls over bills which would expand the powers of banks, some states, most recently New York, are steaming ahead with state laws which would allow banks to provide insurance and other financial services.

Banks such as Bank of America—which earlier this year allowed an insurance company to set up "offices within branches"—Security Pacific and Citicorp are already exploiting loopholes in the existing legislation. Most major regional banks now provide discount brokerage services, either in house, or through an intermediary.

In the meantime, the insurance and securities industries Sears Roebuck, Prudential, Bache and American Express now offer a full range of financial services including, in many cases, banking. In March, the life insurance, securities and mutual fund industries took the unprecedented step of issuing a joint statement calling on Congress and bank regulators to halt the move to concentration of power in the hands of large banks.

"We will work to defeat legislation which would intermingle banking and commerce," the statement said.

● Interstate banking: many of the big U.S. banks have begun to break down the traditional barriers to interstate banking in one or more of four specific ways:

1—The big banks have been eager to gobble up financially troubled out of state organisations. For example, California-based BankAmerica acquired the Washington State Seafirst Bank last year and Citicorp has acquired troubled savings and loan associations in California, Florida and Illinois.

2—New rulings by federal regulators have opened the way for the major banks to open a string of "non-banks"—able to accept deposits and provide a wide range of other services including personal but not commercial loans.

A federal reserve board ruling in March opened the way for banks led by Mellon National to open non-bank branches across the U.S. Almost all of the major U.S. banks have seized the opportunity and followed suit.

3—In New England state legislatures have enacted legislation allowing the merger or acquisition of local banks by out of state banks provided the acquiring bank is based in a state with similar "reciprocal" legislation.

The legislation, which is still being challenged in the courts, appears to open up the way for limited regional networks allowing local banks to build-up their strength ahead of the expected onslaught of the money centres when federal legislation permits.

Automation

In the south east and midwest and mountain states similar regional banking legislation is being prepared.

4—Electronic banking. There are more than 35,000 automated teller machines in operation today in the U.S. and a growing number are linked together through shared networks providing access to one bank from a machine owned by another bank.

In addition, at least 20 U.S. banks, including Citibank, Bank of America and Chemical Bank are offering electronic banking via home computers.

These industry initiatives are forcing banking regulators and congress to rethink their roles and strategies in a changed marketplace. Earlier this year a presidential commission led by the vice president recommended sweeping changes to the regulatory framework.

In Congress, the bank regulators are lobbying hard—but not always together—for new laws which would clearly define what a bank is, the products it can offer and the geographic boundaries within which it can do business.

So far, these legislative changes have been dogged by infighting among the regulatory bodies, the different priorities within the industry itself and political sensibilities in a presidential election year. But, nevertheless, few doubt that legislative change will come—matching what has already been achieved "by the back door."

In the meantime, the U.S. banks have other and more immediate problems. Recent figures from the Federal Deposit Insurance Corporation (FDIC) showed that before including losses or gains from securities trading U.S. bank profits fell by 3.3 per cent to $14.99bn last year—the second decline in a row under the pressure of substantially higher non-performing loans and loan write-offs.

The patchy performance of the U.S. banks—where the medium-sized regionals have generally continued to outperform either the majors or the smaller banks—was again apparent in the first quarter results with only eight out of the top 15 banks managing to post earnings improvements.

Bank stocks remain at depressed levels—often selling at substantially below book value. In part, this reflects the U.S. banks' heavy exposure to the problem of less developed countries. For some of the major U.S. banks their Latin American LDC loan portfolio represents over 200 per cent of their equity and has led the regulators to force the U.S. majors to improve their primary capital ratios.

For many Wall Street analysts the problems that LDC debts pose to the U.S. majors have been postponed rather than resolved. The spectre of a major banking crisis remains—particularly if U.S. interest rates continue their recent upward trend.

Higher U.S. interest rates could affect not only the LDC debt burden but also the U.S. banks' currently booming domestic consumer and business lending. U.S. bank performance is still heavily dependent on the general U.S. economy—and federal reserve board policy.

But the crucial factor determining which banks survive and prosper in the new environment could be their ability to control the costs of delivering new services and products—particularly through the use of automated electronic back-office systems, an area in which industry experts believe many U.S. banks are still lagging.

Cost factor

Salomon Brothers's senior bank analysts published a major report on electronic banking in the U.S. last month. In it, they concluded: "Financial institutions in the U.S. are undergoing profound structural change. In the commercial banking industry the costs associated with the deregulation of products, prices and territorial constraints are only now beginning to be felt.

"We believe that the most successful banking organisations in the future will be those capable of delivering products and services at the lowest effective cost.

"In this respect, bank operations and systems will be of paramount importance. In our opinion, bankers must strategically address and plan the various elements of electronic banking in an integrated fashion to compete and thrive in the coming decades."

Outsiders make the running

IN DAYS gone by, Canadian bankers were relieved that contentious and protracted negotiations to revise the country's banking law came around only once every ten years.

But events in the financial sector are now moving so fast, and the rules becoming so blurred, that many would readily agree to have the law changed more often if that helped remove some of the clouds hanging over the banks.

Canada

BERNARD SIMON

Despite the much-publicised entry of Toronto-Dominion Bank into discount brokerage earlier this year, the banking industry as a whole has been left in the dust of the scramble among financial institutions to expand their services.

Furthermore, Canada's 13 chartered banks are losing some of their most valuable business to the rapidly growing foreign banking community.

Under a proposed amendment to the Bank Act (the first that bankers can remember between the usual ten-year reviews), the 58 foreign banks will, in future, be allowed to expand their assets to 16 per cent of the total for the banking system, compared to the present ceiling of 8 per cent, against which several are already bumping.

Mr Robert Mackintosh, president of the Canadian Bankers' Association, says bluntly that domestic banks "are on an unlevel playing field, and we're on the lower end."

What's more, he complains that "lots of the other players are saying that we're on the higher end."

The tilt, from the banks' point of view, may become even more pronounced over the next few months. McCarthy Securities, a Toronto-based firm of investment dealers, forecast recently that this year's upturn in North American interest rates "could initiate increased competition by some financial service companies in order to gain low market share."

Bank shares have performed poorly on the Toronto Stock Exchange as analysts advise investors against raising their exposure to this sector of the market.

The banks comprise one of what are frequently termed the "Four Pillars" of Canada's financial system.

The other three are the trust and loan companies, whose activities consist mainly of mortgage lending, and executor and trustee business; insurance groups; and investment dealers, traditionally concentrating on *stockbroking and underwriting* corporate debt and equity issues.

The banks are concerned that they are having to carry a heavier load than the other three pillars, giving them less flexibility to respond to a fast-changing environment.

Alone among the four sectors, they have to maintain non-interest bearing cash reserves and pay deposit insurance premiums. They are restricted by legislation from moving into new spheres of business, and their disclosure requirements are more stringent. But with total assets of C$365bn (about £203bn or U.S.$281bn) at the end of January and with a powerful international presence, the banks are by far the most potent of the four pillars.

Banks slipped up during the last review of the Banks Act in the late 1970s by not pushing harder for access to a wider spectrum of operations.

While they succeeded in moving into the mortgage business and consumers credit in the 1950s and 1960s and, more recently, into factoring and leasing, they have stopped short so far of lobbying for fiduciary powers, such as those enjoyed by the trust companies, or the right to underwrite corporate debt instruments and equity issues.

Meanwhile, the other "pillars" are expanding rapidly. All five major banks, except Toronto-Dominion, have lost market share in demand deposits, the *cheapest form of funding.*

By contrast, the trust companies, helped by the concentration of their branch networks in heavily populated Ontario, are gaining.

One of the largest trust companies, Canada Trustco, whose services now range from cheque accounts to consumer finance and a wide range of savings instruments, has raised its share of the demand deposits placed with the country's biggest five banks and three trust companies from 4.3 per cent in 1981 to 5 per cent last year.

Investment dealers are slowly moving into quasi-banking activities by taking deposits on margin accounts and creating versatile money market funds for their clients.

Competitors

Bankers also worry at signs of growing co-operation among their competitors. Two of Canada's largest companies, Brascan and Power Corporation, have restructured their financial service subsidiaries in the past few months to bring insurance and trust operations together under a single holding company.

In Quebec, the provincial government is trying to fragment the four pillars, apparently in the hope of attracting more investment by financial institutions and bolstering the ability of local companies to compete against the Toronto-based banks.

Some bankers are nervous that a drive to give them more elbow room may prove counter-productive by further stirring up resentment against what are seen in some quarters as powerful, money-grabbing institutions which put Canada's interests behind their own.

A recent "revelation" that the Bank of Montreal is hiring several dozen foreigners, mainly Americans, was sufficiently controversial to provoke questions in Parliament.

In any case, many bankers *still believe that they should* stay out of corporate underwriting to avoid conflicts of interest in their dealings with customers.

Nonetheless, they are examining new openings. Mr Mackintosh observes that banks "are now beginning to feel, perhaps for the first time, that the only thing to do is to go after broad powers themselves."

Among the areas being explored are portfolio and pension fund management, trust business and selling insurance.

A committee was formed earlier this year to advise the federal Government on the desirability of allowing a further overlap among the activities of the various institutions.

Banks would like the group to recommend that institutions *be regulated according to their* activities rather than their structure, as is the case at present.

But the chances of the committee agreeing on specific proposals are reduced by the participation of two representatives from each of the four pillars.

Canadian banks have fared tolerably well during the recession. Though assets have stagnated, profits in some cases have risen, despite high interest rates and the banks' exposure to a raft of troubled borrowers, ranging from Dome Petroleum to Latin American countries.

The rub, however, is that the trust companies have performed better. Their profits jumped by an average of over 50 per cent last year, compared with a drop of around 1 per cent for the chartered banks.

PERFORMANCE OF FIVE MAJOR CANADIAN BANKS

(Quarter ended January 31)

	* Assets (C$bn) 1984	1983	Net Income (C$m) 1984	1983
Royal Bank	83.5	86.9	128.2	112.4
Canadian Imperial Bank of Commerce	68.0	68.3	64.9	74.2
Bank of Montreal	63.5	63.5	76.6	74.4
Bank of Nova Scotia	53.0	53.7	90.3	102.8
Toronto Dominion Bank	42.6	44.6	85.4	85.6

* At end of period.

WORLD BANKING 8 — Regulation

Bank supervisors are striving for more co-ordination in the regulation of international banking to improve control, achieve better competitive equality are harmonise matters such as tax and loss reserving.

Moves to bolster capital bases

Changes in supervision

DAVID LASCELLES

CRISIS may strike terror in the hearts of anyone close to banking. But if the shocks of the past couple of years have done any good, it has been by forcing through changes in bank supervision in most of the big lender nations.

Loopholes are being plugged, capital adequacy standards raised, and further strides have been taken towards that elusive goal of a system of international bank supervision that can cope with a banking industry that knows no borders.

Much of it, unfortunately, smacks of locking the stable door after not just one but a whole herd of horses has bolted. The tightening up of the Basle Concordat, the international bank supervisors' creed, followed rather than averted the 1982 Ambrosiano Bank scandal; the Germans are only now enacting new bank laws which could have prevented last year's Schroeder Muenchmeyer Hengst crisis. And there is still a widespread suspicion that the LDC crisis might have been nipped in the bud if supervisors had been more alert and willing to criticise.

This is specially so in the U.S. where Congress rapped bank supervisors for their poor handling of the LDC crisis last year and enacted new controls over international bank lending which pre-empt some of their powers. Mr Paul Volcker, the Fed chairman, not surprisingly, fought hard against them. The regulations now state just when and how banks must set aside provisions against shaky foreign loans, and force the banks to give even more details of their international exposure than they had to already.

Argument

Banking critics in other countries would like to see similar measures, believing in the health-giving effects of disclosure. But the acceptance of U.S. standards internationally seems unlikely—at least in the foreseeable future.

Outside the U.S. there is a clubbishness about bank-supervisor relations which fosters secrecy, but also avoids some of the antagonism between U.S. banks and the authorities.

Nevertheless, supervisors in other countries such as the UK, Germany and Japan, have been fairly stern with their banks over the handling of LDC debt by urging prudence and, if necessary, dividend restraint to free more funds to build up bank reserves.

As a result, 1983 bad debt provisions are up quite sharply; Japan has also introduced a formal list of problem countries whose loans must be written down. But aside from cases of banks badly hit by special problems (like the German banks or Midland of the UK and Crocker), dividends have been rising nicely.

At the same time, supervisors have pressed banks into bolstering their capital bases, and appear to have reversed the deterioration that had been going on for years.

In the U.S., banks were obliged to raise the ratio of "primary" capital (a measure of their own funds) to total assets to at least 5 per cent by the end of last year. Several were already above that level, but many were in the 4-5 per cent range, meaning they had to raise more capital or retain a bigger chunk of earnings.

The Fed is unlikely to stop there. Mr Volcker has already said he would like to see an even higher ratio, while banks that do something out of the ordinary (like buying ailing institutions as a way into a new market, or making large acquisitions) have to boost their capital still more as a condition for regulatory approval.

The British banks bumped up their capital too (though their efforts have been thwarted by the Thatcher Government's decision to end leasing tax privileges, which will land them with a reserve-draining £1.5bn tax bill). Even the government-owned French banks are being pushed by the Banque de France to get their balance sheets into better shape. The Japanese banks still look thinly capitalised by international standards, though comparisons are not flattering because of accounting differences.

Improved supervision has not always meant more supervision, of course. The Third World debt crisis has called for a finely judged balance between toughness and understanding on the part of bank supervisors, to force more discipline on the banks without scaring them away from supporting financial rescue packages for ailing LDC's.

Weak spots

In the U.S., the banking authorities coupled their drive for more capital with a promise not to criticise banks whose backing for IMF-sponsored adjustment programmes left weak spots in their balance sheets. They may not have said so in so many words, but other national supervisors have indicated the same thing to their banks.

Belated though some of these steps have been, they have left the banking industry in much better shape to cope with the lingering stresses of the world banking crisis. With stronger capital ratios, better padded loan loss reserves and—at least in the U.S.—fewer opportunities to conceal mistakes from shareholder scrutiny, any bank that got through the past two years, however battered, can afford to be a bit more optimistic about the next two.

This view seems to be shared by the Bank of England which, like most central banks, is wary of sounding complacent about anything. In its latest Quarterly Bulletin it said:

"New money will continue to be needed by a number of countries; but as long as this is proportionately less than the increase in banks' capital, the vulnerability of banks to problems in these countries will gradually fall."

But, if supervisors are tightening up in their own countries, the harmonisation of supervision still has some way to go. The Basle Concordat in its beefed up form spells out more clearly supervisors' responsibilities for their own banks, their foreign subsidiaries, and foreign banks operating within their jurisdiction. (Ambrosiano "fell through the cracks"). But, while this arrangement shares out watchdog roles, it does not address the fact that some countries supervise their banks better than others.

Poorly supervised centres become havens for the unscrupulous, which the reputable centres can only cope with by ostracising them. Different standards of supervision, even among the reputable centres, also create competitive inequalities between banks fighting for business in the same international marketplace.

Despite years of discussion, officials have still to agree on a definition of capital, and until they do there will never be accord on capital adequacy, the key measure of a bank's financial strength. Supervisors seem to agree though, that a bank's balance sheet should be evaluated by weighting its assets according to how risky they are, rather than simply totting up the figures.

Banking supervision and accounting is also being harmonised within the EEC: by the middle of next year, all banks will be supervised on a consolidated basis, which will make it harder for them to get round regulations by channelling business through obscure foreign subsidiaries. By the late 1980s there should also be a bank accounts directive laying down minimum standards of bank reporting, and setting rules for controversial matters like hidden reserves.

Before long, governments will also have to tackle prickly questions like the tax treatment of loan loss reserves which vary widely from country to country and greatly affect profitability, and whether banks engaged in risky businesses like securities trading should be made to carry more capital.

In the U.S., Mr Paul Volker, the Fed chairman, would like to see a higher ratio of "primary" capital to total assets.

BASLE CONCORDAT

Division of supervisory responsibility for foreign banking establishments.

Responsibility for:

● **Liquidity of:**
Branch, held by H*
Subsidiary, held by H*
Joint Venture, held by H*
● **Solvency of:**
Branch, held by P†
Subsidiary (Shared)
Joint Venture, held by "country of incorporation."
* **H-host authority.**
P-parent authority.
† **P for "group as a whole."**

U.S. BANKING: YEAR ENDING DEC. 1983

	Assets $bn	% change on year (decrease)	Net income $m	% change on year (decrease)	Loss provision $m	Loan loss reserves as % of total loans	Non-performing loans $m	Primary capital ratio (%)
Citicorp	135	+ 4	860	+19	520	0.86	2,100	5.1
Bank America	121	(− 1)	390	(−15)	658	1.25	3,314	5.05
Chase Manhattan	82	+ 1	430	+40	285	1.01	1,900	5.48
Manufacturers Hanover	64	+ 1	337	+14	228	0.90	832	5.01
J. P. Morgan	58	(− 1)	460	+17	230	1.43	557	6.97
Chemical N.Y.	51	+ 6	306	+27	166	1.11	876	5.52
First Interstate	44	+ 9	247	+12	216	1.36	1,321	5.84
Continental Illinois	42	(− 2)	108	+39	395	1.21	1,900	5.69
Security Pacific	40	+ 9	264	+13	156	1.18	865	5.4
Bankers Trust	40	(− 1)	254	+26	80	1.03	558	5.64
First Chicago	36	+ 1	184	+34	150	0.98	854	5.67
Wells Fargo	27	+ 9	155	+11	121	0.98	748.6	5.67
Mellon National	26.4	+30.6	184	+37	52	1.56	539	6.08
Crocker National	23.4	(− 6.2)	(−10.4)	n.a.	173	1.50	773	5.83
Marine Midland	22.9	+13	101	+76	85	1.16	383	5.97

n.a.—not available

Research: Rivka Nachoma

U.S. BANKING: FIRST QUARTER, 1984

	Assets at 31/3/84 $bn	% change on year (decrease)	First quarter net income $m	% change on year (decrease)	First quarter 1984 loan loss $m	Loan loss reserves as % of total loans 31/3/84	Non-performing loans 31/3/84 $m	Primary capital ratio (%) 31/3/84
Citicorp	141.8	+11.0	223.0	(− 5.0)	81.0	0.86	2,300	5.09
Bank America	121.5	+ 2.0	101.1	(−16.0)	105.7	1.22	4,017	5.04
Chase Manhattan	81.8	+ 4.0	102.5	(− 3.0)	75.0	1.04	1,640	5.58
Manufacturers Hanover	64.8	+ 8.7	84.0	+ 2.3	62.5	0.91	1,000	5.53
J. P. Morgan	59.8	+ 0.8	146.0	+23.9	45.0	1.49	675	7.01
Chemical N.Y.	53.0	+14.3	81.3	+13.7	33.1	1.10	899	5.47
First Interstate	42.6	+ 6.2	63.7	+ 9.5	45.0	1.33	1,145	6.18
Bankers Trust	42.3	+ 7.2	69.2	+13.0	45.0	1.27	685	5.55
Continental Illinois	41.4	(− 1.5)	29.4	(− 5.8)	140.0	1.32	2,300	5.84
Security Pacific	40.0	+ 9.0	67.9	+11.0	46.4	1.21	881	5.48
First Chicago	35.9	+ 2.9	49.8	+15.0	47.5	0.99	902	6.27
Wells Fargo	26.6	+ 5.0	40.0	+16.0	31.3	0.98	739	6.30
Mellon National	26.4	+31.8	33.0	(−14.5)	17.2	1.56	448	6.20
Crocker National	24.7	(− 6.4)	120.8	n.a.	147.6	1.76	880	5.62
Marine Midland	24.2	+19.0	22.6	(− 3.5)	18.3	1.13	430	5.42

n.a.—not available

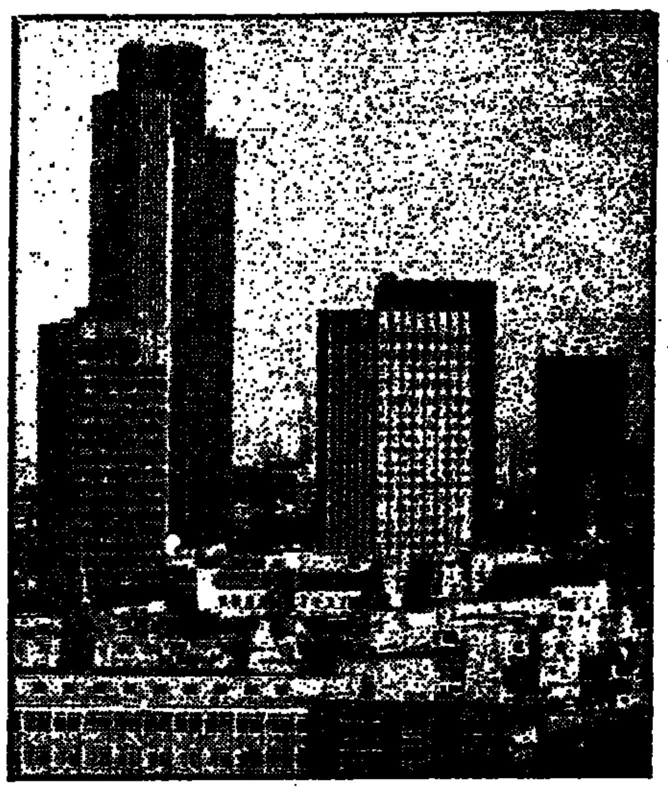
Research: Rivka Nachoma

Liberalisation of financial markets—a consequence of the spread of new technology—is creating exciting opportunities for banks across Europe. Governments are maintaining an increasingly watchful presence, however.

Huge changes in progress

Britain

DAVID LASCELLES



Winds of change are blowing through the entire UK financial scene. Above: the NatWest Tower looms above the City of London skyline.

BANKERS DO not make money by exaggerating. So when Sir Timothy Bevan, chairman of Barclays Bank, Britain's largest described the UK banking market as a battlefield last year it was probably an understatement. As things have turned out he could have tossed in words like whirlwind and revolution and still failed to capture the momentous changes now confronting him and his colleagues.

UK banking—the whole UK financial scene if it comes to that—is going through one of those once-in-a-generation convulsions that reshape, renew and also destroy institutions and markets. Quite what will come of the current one it is too early to say: apprehension vies with excitement. But there is a sense that it must be to the good because it is unleashing new market forces, stripping out distortions and, some would say, kicking the banks out of their slumbers.

What makes it all so momentous is that change is coming in at least four ways, all at once. Deregulation of the UK financial markets is opening up new opportunities for banks, mainly in the securities business. But by the same token banks face fresh competition, mainly from the building societies, which have proved highly aggressive and innovative. The bank clearing system, the "works" of UK banking, is undergoing a radical overhaul. Most costly of all, the Thatcher Government has lobbed a couple of big tax bombshells.

Flow

These events are not as unrelated as they seem. At their broadest the financial changes in the UK affect the way money flows from those who have it to those who need it. Traditionally, banks brought together the saver and the borrower, the securities firms linked the investor and entrepreneur and the building societies the saver and the homebuyer. Those roles will now be increasingly shared and as financial intermediaries become more alike their tax and regulatory treatment should be equalised as well.

The liberalisation of the London Stock Exchange, which started last year, gave UK banks their first real opportunity to get a foot on the trading floor by buying into stockbrokers or stock jobbers (market makers). Any hesitation that they might have had about moving into an unfamiliar and risky business was quickly dispelled. Three of the Big Four clearing banks (Barclays, NatWest and Midland) have already formed alliances with Stock Exchange firms, and the fourth, Lloyds, has said it will too.

The grandest is Barclays' £100m-plus deal tying together stockbrokers de Zoete and Bevan with stockjobbers Wedd Durlacher to form what could become the largest securities operation in the UK. Barclays has been vague about its plans but clearly this has the makings of both a major international securities firm for institutional clients as well as a big domestic broking business where small investors up and down the UK will be able to deal through Barclays' 3,000-odd branches.

The long-run question is whether the big clearers are set to dominate the UK securities business as their counterparts do in, say, West Germany, eclipsing not just the stockbrokers but also the merchant banks.

Given the resources they can plough into it, backed by huge branch networks the chances look good, at least on paper. What has to be tested, though, is whether staid bankers can cope with the turbulence and risk of the securities industry.

Questions must also be answered about regulation and control. How will banks insulate themselves from losses in securities trading? How will their securities operations be regulated? Despite the excitement the recent deals have generated there is much scepticism in parts of the City about their viability.

Some people also fear that the Bank of England may have rushed things along by encouraging UK banks to form large and strong UK securities conglomerates to withstand the onslaught of well-financed foreign invaders before they had thought them through properly. If so, the Bank would have something to answer for if things turn out badly.

But the banks' eagerness to get into securities also owes something to the stresses in their traditional deposit-taking and lending business. For years now they have been losing out to the building societies in the hotly competitive High Street savings market. The societies have pressed their advantages to the full but the banks have also been slow to fight back. This has cost them a good chunk of their "endowment" of cheap funds and driven up their financing costs.

At the same time the Thatcher Government has embarked on a radical reform of the corporate tax system, the effect of which will be to make bank borrowing less attractive and equity financing more so. Whether or not this actually triggers an equity boom it forces banks to get into the equities business, if only to protect their flanks.

The Tories have also dealt a massive blow to the banks' highly profitable leasing business by phasing out the hefty tax allowances that made it so attractive. Actually it was a double blow because it also forces banks to pay tax on earlier leasing business which they expected to defer *ad infinitum*—as much as £2bn by some estimates.

Coming as it did at a time when the banks' profits had already been hard hit by the need to make large provisions to cover bad LDC and domestic loans it was especially painful (not least for Midland Bank, already aching from the huge $175m losses of its U.S. subsidiary Crocker National Bank). This raises another long-run question: whether British banking can ever recover its traditionally enviable profitability record. The answer is probably not.

The Government is also keen to create a more level playing surface for the banks and building societies. The leasing tax move was a step in this direction (the societies are not allowed to lease so they welcomed the change). In the last two months societies have lost their exemption from capital gains tax on gilts trading (making them equal with the banks), while the banks are to be included in the societies' composite rate scheme, meaning they will have to pay interest to their depositors net of tax.

Green Paper

More radical changes lie ahead. The Government has promised a Green Paper on building society law reform which is widely expected to propose greater powers. The key one may be the right to make unsecured personal loans as well as the right to offer legal and other services.

Few things better symbolise the assault on the banks' traditional turf than the attempt by Citibank of the U.S. to become a member of the UK clearing system, which is dominated by the Big Four and a handful of smaller banks.

The application forced the clearers to face up to long-standing criticism that they run a monopoly (though legal action has never proved this). It also coincided with a recommendation to the Government by the National Consumer Council that the banks be made to throw open the clearing system to anyone wanting to provide money transmission services.

Rather than rule on Citibank's application (which would have been an agonising decision) the clearers decided to use it as the pretext for a full review of the clearing system, which will take the rest of the year (Citibank's application was put on ice). This will quite likely lead to an epoch-making reshaping of the system along the lines proposed by the NCC. Anyone will be able to join, if prepared to shoulder a part of the large costs of running it.

If so, the very heart of the UK banking system will cease to be the preserve of the traditional clearers and will be open not just to other banks but probably eventually to non-banks like building societies if they are allowed to go in for money transmission.

The irony in UK banking is that while the big banks find themselves besieged on all sides, clobbered by new taxation and losing market share to everybody in sight, their future actually looks much more exciting than it has looked for years. They are the most powerful players in a fast-moving market. Deregulation and new technology are opening fresh avenues, as inventive banks like the Bank of Scotland has shown with its TV banking and money market fund accounts.

The Big Four 1983 (£m)

	Pre-tax profits	Assets
	£m	£m
Barclays	557	64,904
NatWest	503	60,017
Midland	225	52,613
Lloyds	419	38,432

Tougher laws curb optimism

ON THE face of it, West German banks — and their shareholders—have a lot to be happy about. Last year profits were up even on the already good result of 1982 and dividends were generally increased (or resumed).

This year the banks' interest margins will almost certainly be down, but with the domestic economy picking up strongly credit business should be buoyant too.

West Germany

JONATHAN CARR

Yet the picture is clouded by two main factors; the continuing high risks above all for credit business abroad, and the tougher provisions of the Banking Law approved by the Bonn Cabinet in February.

Much of this is illustrated by the results of the so-called "Big-Three" commercial banks Deutsche, Dresdner and Commerz: "so-called" because last year, the group consolidated assets of Bayerische Vereinsbank (DM 113.5bn) for the first time nosed ahead of those of Commerzbank (DM 113.3bn).

Thanks above all to rising interest income and strong results from their commissions business, the three sharply boosted "partial operating profit"—the Comerz by 62 per cent to DM 910m, the Dresdner by 38 per cent to DM 1.2bn and the Deutsche by 16 per cent to DM 2.5bn.

German accounting practice allows the banks to keep the exact level of "full operating profit," that is including earnings from own account trading, to themselves.

So far, so good—except that the banks felt compelled to put much of their profit into reserves of one sort or another to cover losses or the risk of losses above all on their credit business.

Although economic growth is strengthening at home, the number of company insolvencies remains high and the banks are deeply committed to the crisis-ridden steel, coal and shipbuilding sectors

As for their foreign lending, all German banks together (excluding their foreign subsidiaries) are owed more than $30bn by the countries of the developing world and Comecon. Nearly $8bn of that is owed by the crisis-ridden Latin American region. These figures are far smaller than those, for example, for the U.S. banks—but it did not need the Argentinian debt cliff-hanger this spring to underline to the Germans the need to boost their loan loss provision.

Clue

Again it is not clear from the banks' balance sheets exactly how much is being stacked away, since the disclosed provisions figure is usually offset against securities trading profits before being published. But at least a clue emerges from the "Write-downs and provisions" part of the profit and loss accounts.

For Deutsche Bank in 1983, DM 1.46bn was noted under this item, for Dresdner DM 1.1bn and for Commerzbank DM 650m. Further big sums were added to open reserves.

At the end of it all shareholders may even consider themselves lucky to be receiving a dividend payout of 24 per cent at the Deutsche, and of 12 per cent at the two other banks.

There is a direct, and for many banks a worrying, connection between international lending and the government's proposed changes in banking law.

At present the banks must limit their lending to a maximum of 18 times shareholders' equity, but they do not have to include the business of their foreign subsidiaries (notably those in Luxembourg) in the calculation.

Under the new measures (passed by the cabinet but yet to go through parliament), the banks will have to publish consolidated accounts for all subsidiaries in which they have at least a 40 per cent stake, and apply the "18 times" rule to the new total lending sum.

The banks are to be given five years to make the adjustment, and in fact have already started to adapt after a "gentleman's agreement" reached with the domestic banking authorities in 1981.

But the new rule implies a big change all the same. The Bundesbank, the central bank, has calculated that to comply the banks would either have to reduce their total lending exposure by at least DM 50bn or increase their equity by a minimum of DM 2.5bn.

The latter would involve Herculean efforts by some banks; the former could restrict the German contribution to future efforts to solve the international debt problem.

Cautious

The banks are being cautious already in their new lending abroad. But a lot more "fresh money" and new rescheduling efforts will be needed in the next few years from all Western banks, including the German ones, if an international financial crisis is to be headed off.

Besides the regulation on consolidation, the new banking rules include a provision under which the limit for the biggest single credit given by a bank will be cut from 75 per cent to 50 per cent of its capital.

This rule in particular received a lot of publicity following the debacle of the private bank Schroeder, Münchmeyer, Hengst (SMH) late last year.

SMH had lent more than DM 800m to a construction equipment group, which later failed, although the bank's capital was little more than DM 100m.

In fact, it is doubtful whether even the tougher new rules including consolidation (much of SMH's lending was channelled through its Luxembourg subsidiary) would have prevented the SMH affair.

At least the banking sector as a whole can congratulate itself on the speed with which it stepped in to head-off the collapse of SMH, limiting damage which could have been far bigger and longer-lasting.

Modest boost for bankers' spirits

ALTHOUGH almost by definition the chairmen of France's nationalised banks could hardly be described as happy men, they are walking this spring with somewhat more bounce in their step than could have been imagined 18 months ago.

France

DAVID MARSH

Following the wide-ranging nationalisation programme of February 1982, which extended the 1945 state takeover of the Big Three banks throughout practically the rest of the French commercial banking system, banks were thrust pell-mell into a delicate new power game with the Government.

The risk clearly existed that, unless they struggled hard to fight for a relative amount of management autonomy, the banks would become absorbed into the state apparatus as mere instruments of government for carrying out industrial re-organisation, keeping control of the franc and helping finance budgetary needs.

For a variety of reasons, this has not happened. In line with the general trend of Government policy, reinforced since March 1983 towards rigorous, not to say austere, economic management, the banks have been allowed manoeuvering room to exercise traditional banking prudence in the running of their business.

In the French system where state ownership and, even more important, a tradition of government influence, runs throughout all areas of the economy, the banks cannot avoid being involved in thorny cases of supporting companies in difficulties.

At a time when important heavy industrial sectors such as steel, engineering and shipbuilding are facing large-scale capacity reductions and job cuts, state ownership of the banks inevitably draws them into such problem cases earlier, more intimately, and certainly more publicly, than is the case in other countries such as Germany or the UK.

But the banks' ability to resist Government pressures to bail out lame ducks has been reinforced by growing realisation in the administration that a blatant loosening of French principles of sound banking ultimately would reflect badly on the banks' standing abroad.

With France still dependent on foreign borrowing to finance the (diminished) current account deficit and generally oil the wheels of its international trade, no one in the Government wants to risk weakening the country's overall credit rating. So far, this has stood up well in spite of three years of heavy fund-raising since the Socialists came to power.

Additionally, the mood of interventionist policy-makers in the Government itself has been greatly weakened following the strengthening of the economic powers of M Jacques Delors, the moderate Finance Minister, who has ultimate responsibility for the banks.

The resignation just over a year ago of M Jean-Pierre Chevenement, the arch-interventionist Industry Minister, and his replacement by M Laurent Fabius, a man who hardly lets a day go past without preaching the virtues of pragmatism and profits, probably adds up to the biggest single boost for bankers' spirits since the nationalisations.

The current discussions over a new rescue package for Creusot Loire, the private sector engineering company, provide an illustration of how the environment has shifted in the bankers' favour.

In the political shadow-boxing and role-playing which in France always accompanies financial and industrial drama, the banks have felt sufficiently strong to mount a vigorous public campaign warning against any soft options for ending Creusot-Loire's troubles.

Both M Jacques Mayoux, chairman of Societe Generale, Creusot Loire's main bankers, and M Rene Thomas, head of Banque Nationale de Paris, have recently urged a tough line.

By ostentatiously expanding on the government's line that no more public funds are available to bail out the troubled company, the bankers are putting maximum pressure on Creusot Loire's private shareholders to dig deeply into their own pockets.

Bankers have also been comforted by a moderate rebound in their profits for 1983—even though these remain highly depressed by international standards. Overall, commercial bank profits fell in 1982 for only the second time in 30 years.

Recovery

The earnings recovery (see accompanying table for details) has in some cases been the result of a deliberate policy by some banks to maximise provisions on risky business for 1982 (the first year under their new chairmen) as part of a general deck-clearing exercise. But generally banks have improved their margins and tightened up on running costs.

The Government has allowed the banks leeway to increase provisions on both foreign and domestic banking risks for 1983 in the general interest of boosting their balance sheets. Different banks have chosen to interpret this freedom in widely differing ways. Credit Lyonnais, for instance, actually cut provisions on sovereign country risks and massively expanded its provisions on other business—including its troubled Netherlands acquisition, Slavenburg's, which is in the throes of extensive reorganisation aimed at bringing it back to financial health by the end of the year.

Additionally, the Government has cut its "take" from the banks in the form of dividends and contributions to the state's nationalisation compensation fund to 51 per cent of net profits from 66 per cent for 1982.

The combined effect of this financing leeway, together with the strength of the dollar pushing up the banks' foreign profits and general international assets, has been to boost significantly (in franc terms), the banks' capital resources for 1983.

This capital strengthening has been, of course, most marked for the big banks. BNP, for instance, actually increased its overall capital resources to FFr 11.7bn from FFr 9.6bn for last year (share capital, owned 100 per cent by the state, remained unchanged at a mere FFr 1.6bn).

Banks like the BNP have discovered that the inability of the state to subscribe to capital increases has been pleasantly offset as a factor weighing on the capital base by the absence of pressures (unlike U.S., German or British banks with private shareholders) to maintain large dividend payments to comfort the stock market.

Other smaller banks which are feeling the pinch of capital inadequacy have been allowed by the Government to return to the Paris bourse to raise funds in the form of *titres participatifs*, non-voting loan stock intermediate in character between shares and bonds.

Of the newly nationalised banks, Banque Indosuez, Credit Commercial de France and Banque Parisienne de Credit (now being absorbed into the Suez group as one of a series of reorganised smaller banking networks) have all made TP issues over the past few months.

This follows the capital increases subscribed by the state itself to banks with particular balance sheet problems, Credit du Nord and Credit Industriel et Commercial (CIC) which has had to absorb the loss-making Banque de l'Union Europeene.

Controls

In contrast to earlier fears that foreign expansion would be shackled under new ownership, nationalised banks have been allowed to press on with opening of foreign branches and representative offices. There are signs, however, that the Treasury is keeping this process under control to avoid over-concentration in centres like Singapore and Hong Kong, already heavily populated by French banks.

Paribas, under the chairmanship of former Treasury director Jean-Yves Haberer, has scored two notable coups over the past few weeks by taking full control of its New York investment banking subsidiary Becker, and also by regaining its majority stake, lost in the run-up to nationalisation, of Geneva-based Paribas Suisse.

The return to square one in the Paribas Suisse affair, placing firmly in the history books the furious political furore which accompanied the selling of the Swiss stake by former chairman M Pierre Moussa in autumn 1981, underlines the extent to which calm has now crept back again to the French banking scene.

BANK PROFITS (FFr)

	1983 net profits	% change from 1982
Banque Nationale de Paris (group)	1.55bn	+ 4.7
Credit Lyonnais	359m	+ 15.5
Societe Generale	430m	+ 10
Banque Paribas	176m	+ 40
Banque Indosuez (group)	394m	+ 4
Credit du Nord	16.5m*	†

* Adjusted to exclude extraordinary gains.
† 1982 loss FFr 59m.

A call for bold reforms

"OUR BANKS are still politicised institutions and there are few hopes of developing a financial market which is not dominated by politics in the worst sense of the word."

Italy

ALAN FRIEDMAN

Sig Guido Roberto Vitale, the investment banker who made these caustic remarks at a recent Financial Times banking conference in Milan, is not alone in his criticism. A number of senior Italian bankers and industrialists would concede that the banking system, which is 90 per cent state-controlled, needs to be revitalised.

Sig Vittorio Merloni, former president of the Confindustria employers' association, took advantage of his valedictory speech recently to call the banking system "a bureaucracy of granite — static, stubborn, oligopolistic and inefficient."

The problem is historic and structural. Because most aspects of Italian financial affairs can be coloured by politics, the banks are not always free to plan new strategies and engage in competition without hindrance. Everything — from the opening of new branches to a capital increase to a proposed merger—tends to be in some way touched by politics. Top executives at some of the biggest of Italy's 1,085 banks may receive their jobs for political reasons.

The banks must also contend with the voracious needs of the Government's borrowing requirement, which has conspired to keep interest rates high as Treasury bonds siphon off savers' deposits.

Although the inflation rate in Italy is falling and could drop below 10 per cent by the year-end (last year's average was 15 per cent) the real cost of borrowing remains much higher. A top company may be able to borrow below the prime rates, which now range between 16 and 17 per cent. But lesser names can pay over 20 per cent for their money.

There are not many alternatives for companies seeking capital. The Milan Bourse, despite promising signs of reform from the new president of Italy's Consob stock market authority, is not a serious source of capital for Italian companies. It is still a small den of insider trading.

A fashionable topic of conversation at bankers' lunch tables is the prospect of creating "merchant banks," which some Italians appear to regard as a panacea for the under-developed financial market.

But a surprising number of people who discuss merchant banking, with favourable references to the City of London, know very little about it.

In recent speeches both Sig Vitale and Sig Mario d'Urso, of Lehman Brothers Kuhn Loeb, have made much of the lack of understanding. They agree on the need for new institutions to aid companies by taking equity stakes, develop corporate finance and help to create an environment more conducive to growth.

Sig Vitale can be cuttingly frank: "The average entrepreneur in Italy rarely has a vision of the future which goes beyond today." If it were developed properly, "merchant banking could help commercial banks to dismantle perpetual credit lines which are in reality equity participations . . . we *still* have not understood in Italy how essential a sophisticated financial market can be for economic growth," he has said.

But not all is gloom. The Bank of Italy has lifted its formal credit restrictions on bank lending and given its tacit approval to a relaxation of the way Italian banks set prime rates. The result, since late February, has been a less oligopolistic approach to the prime. Behind the scenes, however, the central bank still monitors closely the expansion of credit through "moral suasion," and this makes for a certain rigidity.

The level of 1983 net profits among several of Italy's largest banks showed a growth trend of between 10 and 20 per cent. But the figures contained in Italian bank results are not always meaningful.

The three big banks controlled by the IRI state holding company — Credito Italiano, Banca Commerciale Italiana and Banco di Roma—are receiving funds to double their capital, albeit from a low base.

Professor Romano Prodi, chairman of IRI, has said he would like to reduce state participations in his group's banks —an interesting move towards at least some privatisation.

Banca Nazionale del Lavoro (BNL), Italy's largest state-controlled bank, is planning to offer up to L300bn ($176m) of shares to the public through a new quote on the Milan Bourse. Dr Nerio Nesi, BNL's chairman, says some shares will be issued before the end of this year.

But analysts in Milan are sceptical about the size and timing of the BNL offer. Nonetheless, the BNL move to privatise up to 30 per cent of the bank is seen as promising.

Meanwhile, as Italian bankers strive to become more competitive, they are also trying to forget Italy's biggest post-war banking scandal, the Banco Ambrosiano affair. The overall $406m financial settlement for creditors, plus an additional Italian settlement which could total a further $100m, has been reached.

The Vatican Bank—Istituto per le Opere di Religione (IOR) —is to pay a hefty $244m in June to break free from the claims of creditor banks. The IOR directly and indirectly owned 10 of the overseas dummy companies to which Ambrosiano lent $1.3bn.

Losses: Government blamed

ISRAEL's biggest banks all made substantial losses in 1983 — the direct result, they claim, of Government policies.

In the top five only First International Bank of Israel (F.I.B.A.), the fifth biggest, stayed in the black, reporting a modest $4.2m profit.

Israel

LYNNE RICHARDSON

The banks' 1983 year-end reports were delayed until the end of April this year when appeals to the Treasury to return advance tax payments, and to the Bank of Israel, the Central Bank, to ease liquidity requirements were finally rejected. Had the banks succeeded in these requests, then the balance sheets would have appeared less gloomy.

As it was, the Bank Leumi group, the front-runner with assets of $21.4bn, recorded a loss of $71.9m, compared to a profit of $13.6m in 1982.

Also missing from the total assets on Leumi's consolidated balance sheet were guarantees and documentary credits amounting to $1.5bn. This is the first year that these items have been excluded, in accordance with Bank of Israel directives to all the banks.

Bank Hapoalim's losses were even greater at $101m, after a 1982 net profit of $11.5m the consolidated balance sheet registered a fall of 5.8 per cent to $19.5bn.

Israel Discount Bank lost $38m in 1983 and saw its assets fall to $10.5bn from the previous year's high of $11.2bn.

United Mizrahi Bank, the fourth-rated in the country, with total assets of $4.3bn, showed a loss of $8.8m against a net profit of $12.6m the previous year.

It should be noted that First International, besides being the only Israeli bank to show a profit in 1983, is also the only one that did not engage in the regulation of its share prices.

This system, whereby the banks encouraged clients to invest in bank shares with the assurance of an increased yield on re-sale to the bank, collapsed last October. The banks were inundated with shares from clients who feared an imminent devaluation of the *shekel* and preferred to invest in harder currencies.

After a few weeks of panic selling, the Government stepped in to prevent the banks from facing the full extent of the disaster. An arrangement now exists whereby the Government has guaranteed to redeem bank-shares held in five years' time at their U.S. dollar value as at October 6 1983.

The Israeli public bore the brunt of the bank-share collapse and have since viewed the banks with suspicion and scepticism.

The banks' rapid increases of bank charges and cutting of overdraft facilities have not done anything to heal the rift. But Israelis use their banks for many services including stock-brokerage, mortgaging and utility payments. Every payment to or from Government agencies and nearly all salaries are handled by the banks.

After the dust settled last year, Israel's commercial banks agreed to demands from the Treasury and the *Central Bank* that they streamline their operations and become more profitable.

At first, the banks announced that fewer new branches would be opened and that staff would be reduced. New technology was another area where economies were to be made and, in February this year, the country's 500 automatic teller machines went compatible as the banks announced that there would be fewer bank-wall machines installed in the future, but more in public places.

However, United Mizrahi Bank stated categorically that cut-backs in automation would be counter-productive and a false economy. Bank Hapoalim, although saying at the time that computerisation *would be cut back*, has gone ahead with its plans to introduce videotex terminals into the executive offices of some of its corporate clients.

This system, developed for Hapoalim by an Israeli company, N.C.C., gives the executives terminals with flexible access to different "angles" of the company's accounts with the bank for added security. It may well herald the introduction of home banking in Israel.

In recent years, Israel's commercial banks have trumpeted the successes of their overseas networks. All the major banks have operations in North and South America and Europe, consisting of retail branches and representative offices.

Some have done extremely well, with *Israel Discount Bank—New York* presently ranking as 63rd largest in the U.S. and 14th in New York state.

This year, however, the Israeli banks played down the role of their overseas operations, all of which are reported to have prospered.

Tax concessions give big banks a boost

Belgium

PAUL CHEESERIGHT

MAJOR BELGIAN banks, in the most significant development of the past year, have improved their financial structures by taking advantage of tax concessions offered by the Government to help capital raising. But their business has become lop-sided in the face of a weak demand for credit from the private sector and an apparently insatiable demand from the public sector.

Funds raised by the whole sector since the introduction of cash incentives in 1982 reached BFr 18bn, according to the Banking Commission; Shareholders equity in the banks rose by 30 per cent between the end of 1981 and the end of 1983.

For the first time in years, the Commission notes there has been a more important growth in equity than in the balance sheet totals of the banks, which since 1970, have been growing considerably as a result of increased international business.

The Banking Commission called these increases in equity a "security mattress." Banque Bruxelles Lambert classified them in a way which reflected the general spirit of the banking community—they open up new perspectives for the future.

BBL itself, the second largest of the Belgian banks, had a BFr 2.37bn rights issue and converted BFr 1.13bn of loan stock into shares. Societe Generale de Banque, the biggest of the banks, followed a BFr 3.05bn capital raising in 1982 with a loan conversion into shares last year of over BFr 2bn. Kredietbank, the major Flemish financial institution, had a BFr 2.35bn rights issue.

These three banks represent 70 per cent of banking activity in Belgium but there are in fact 81 banking institutions, roughly the same number as there has been for 25 years. More than half the total are either outright foreign-owned or have majority foreign participation.

This strong cosmopolitan flavour is reflected in the fact that some 60 per cent of the activity of banks established in Belgium has an international character.

Outside the purely interbanking business, much of this activity is inevitably linked to foreign commerce. The business of the banks has, therefore, been susceptible to the shifts and turns of the Belgian economy.

There have been some signs of movement out of recession and a return to strength in the corporate sector, but investment remains at a low ebb. The banks have, in consequence, felt the effects both on their deposits and on their lending.

"The wider liquidity in trade and industry and the high propensity of private persons to save have both stimulated the acquisition of deposits," Kredietbank noted.

Deposits rise

By the end of September 1983, its deposits, including medium-term bonds had risen 12.1 per cent over a year to reach BFrs 371bn. There have been similar experiences at other banks. SGB deposits rose 13.4 per cent in 1983 to BFrs 947bn.

One of the striking factors behind this development was the role played by Belgian franc deposits. In the 12 months to June 1983, the Association of Belgian Banks observe such deposits made up 78 per cent of the total, compared with 39 per cent the previous year.

Partly this has reflected a greater confidence in the franc on the foreign exchanges. But the trend may have been less marked in the early part of this year when the franc was caught up in the bout of instability which hit the European Monetary System.

At the same time, the major banks have reported an increase in the deposits placed by other bankers, emphasising that Belgium has taken a not insignificant role in the development of an international phenomenon. In the 12 months to last September, BBL saw bankers deposits rise 13.5 per cent to BFrs 534.8bn, a slightly slower growth than in its previous financial year.

But, as far as lending is concerned, the picture is mixed. The recession has been behind a change in the nature of the banks' credit business. Since 1979 there has been a deepening shift away from the provision of credit to the private corporate sector and to households, while the state has been absorbing a greater proportion of the banks' lending.

Over the last year there have been two significant factors. The continued pressure on salaries and wage rates has meant that disposable income among individuals has dropped; there has been a more cautious approach to borrowing and demand for loans has dropped.

On the business side there has been a tendency towards less reliance on bank credit. Although profitability generally is not as high as the business federations would like, there was a substantial recovery in 1982 which continued last year. This has helped to check the rise in corporate indebtedness.

In addition, the Government incentives for the provision of risk capital have meant that companies have been able to stabilise their balance sheets by rights issues, in just the same way as the banks themselves have done.

Belgian banks face increasing competition from other institutions.

Between 1982 and the early part of this year capital increases worth about BFrs 85bn went through the Brussels bourse compared with a tiny BFrs 2bn in the two previous years.

So lending from the banks to the private sector, as reflected in the latest set of annual figures, has been no more vigorous than in the previous set. The Government on the other hand, despite policies of retrenchment, has continued to act as a magnet for funds.

Last year, for SGB, funds provided to the private sector and foreign public bodies rose 4.3 per cent to BFrs 705.9bn, but facilities to the Belgian public sector climbed 23.4 per cent to BFrs 457.1bn. For Kredietbank total private sector credits drawn down in the year to last September were 0.5 per cent lower than in the previous year at BFrs 283.9bn, while Belgian public sector financing rose 23.8 per cent to BFrs 233.6bn.

Competition

This year there is a modest chance that these proportions might change slightly if private sector business steps up its investment and the Government is successful in its plans to reduce the scale of the public sector deficit. But household spending looks like continuing depressed, and in this sector the banks are facing increasing competition from other institutions.

On the foreign side, the greater part of Belgian bank lending has been in the industrialised countries so that the major institutions have escaped the worst of the ravages suffered by banks with heavy loan portfolios in areas like Latin America.

And profits have been growing. SGB for 1983 had net profits up 29 per cent over 1982 at BFr 4.08bn. Kredietbank in its financial year to last March has been expecting to announce higher net earnings than those of the year to March 1983 of BFr 1.7bn on the basis of a 7 per cent increase in gross operating income. BBL, for its part, had net profits in the year to last September of BFr 1.67bn against BFr 1.42bn in the year before.

Chastened sector feels the worst is now over

Netherlands

WALTER ELLIS

THE SHAKE-OUT THAT has affected Dutch banking throughout the 1980s is beginning to show benefits. The industry is stronger now, more resilient and aggressive. Gross and net profits increased sharply in 1983, and if provisions against debt also rose, then there was more than enough cash to meet the demand.

This year, first quarter results, though not all disclosed, are down on the same period last year, but interest rates could not be expected to stay at the previous high levels and the underlying trend of business is reassuringly up.

Bankers in the Netherlands have much to be grateful for. A year ago, the headlines spoke of alleged illegality (Slavenburg's), bankruptcy (Tilburgse Mortgage Bank), apparent incompetence (Westland-Utrecht) and uncertain ownership (Nederlandse Credietbank).

The big four—ABN, Rabobank, Amro-Bank and the NMB—were not directly affected by these and other claims, but margins were being squeezed all round and bad publicity for one was unwelcome to all.

Today, Slavenburg's has been re-born as Credit Lyonnais Bank Nederland and is fast regaining its reputation as a sound Dutch institution with worldwide connections. The Tilburgse affair—hinging on the collapse of a bank under the care of the central authorities—is practically forgotten. Westland-Utrecht has been slimmed down and re-financed by Nationale-Nederlanden, the largest Dutch insurance group. The Nederlandse Credietbank (NCB) has increased its earnings and is in the process of being taken under the wing of Chase Manhattan Bank of New York.

Chase's acquisition of the NCB will give the American bank the most important foreign interest in the Dutch banking sector and should do for its new subsidiary what Credit Lyonnaise is doing for the former Slavenburg's—plug it firmly into worldwide trading. Banque de Suez Nederland and Paribas Nederland already benefit from easy access to a multinational network.

The general picture is of a chastened banking community, careful with its own and its investors' money, confident that the worst of the economic recession, at home and abroad, is over, and sure of the wisdom of large-scale restructuring, now practically complete.

Not far beneath the surface, however, there still lurks a fear that the international banking crisis may yet throw up the equivalent of a solar flare, scorching those who have taken up an orbit too close to the sun. Allied to this anxiety is the feeling that the economic recovery may not last. That is why provisions continue at record levels.

A global slump would, however, by definition, be a universal disaster, and the Dutch are not going to get themselves too worked up over possible events beyond their control.

A more concrete concern is the long-delayed Dutch Postbank, a state-owned financial institution that is due to open its doors to the public in January of next year. The commercial banks have argued fiercely against the idea of a state bank for years. Many MPs have echoed their criticisms. In the end, they have slowed its advance and spiked several of its guns. It is still coming, though, and the fear of the banks is that within six years, it will have acquired 10 per cent of the key secured loans market.

Commercial bankers can never sit easily with nationalised rivals. They see state involvement in the market place as little more than an obscenity.

The Postbank, when it comes, will be a chain of banking facilities within existing post offices. This network already exists as the state savings bank and national giro payments system. The difference between the old and the new will be chiefly a change of control (from PTT to a new postbank board of management) and the gradual establishment of an individual identity.

Initially, the savings bank and giro activities will be paramount. Gradually, and inevitably, other activities would grow, with lending presumably to the fore. Whether or not the forecast of a 10 per cent share of the secured loans sector by 1990 is realistic remains an open question.

At central bank level, the success of the commercial banks in 1983 has not gone unremarked. Mr Wim Duisenberg, the personable president of De Nederlandsche Bank—a man who has stepped out with ease from the shadow of his illustrious predecessor, Mr Jelle Zijlstra—urged bankers in May to be cautious about paying high dividends, and to concentrate more on the building up of funds.

Some felt his implied criticism was a little harsh, since the main banks have never failed to make a profit and did so in style last year. But the central bank has been accused of being too lax in the past. Perhaps Mr Duisenberg now feels it is time for him to step up prudential control a little.

At any rate, his own institution cannot be faulted. It made a net profit of Fl 1.73bn in 1983—an increase of 9 per cent.

ABN last year recorded earnings of Fl 365m—7 per cent up on 1982—while its provisions edged up to Fl 2m to a new record Fl 650m. Amro-Bank increased its provisions by a full Fl 100m, to Fl 950m, but still managed to raise its net result by 29 per cent, to Fl 209m. Rabobank, the co-operative "outsider" scored earnings of Fl 566m, up 16 per cent, and provisions of Fl 675m, also up 18 per cent.

The NMB, with its emphasis still on business, saw its net result move up 12.5 per cent, to Fl 101m, with provisions 23 per cent up, at Fl 615m. Just outside the "big four," the NCB managed a 25 per cent earnings rise, to Fl 9m (provisions Fl 85m, up 28 per cent), while Credit Lyonnais Nederland—which is eschewing net profits while it rebuilds its resources—achieved a gross result of Fl 62m. The 1983 gross result at Credit Lyonnais was greater (Fl 73m), but extensive reorganisation has proved costly.

Economy's problems spur expansion moves abroad

Ireland

BRENDAN KEENAN

THE IRISH banks are still weathering the storm of recession, with the outlook still unsettled. Profits have recovered significantly after the tumbles of 1982 but the economic environment remains weak.

Demand for credit is virtually at a standstill and even the 11 per cent ceiling on growth in personal loans is unlikely to be reached. Bad debts, and potential bad debts remain high and the banks have become much more active in monitoring the affairs of clients.

Companies are asked to produce monthly reports in many instances and there is greater insistence on the production of audited accounts. What the banks have found through this more intensive scrutiny has not always been to their liking.

In particular, many companies are still disguising the real extent of their difficulties by non-payment of value-added tax (VAT) and employees' insurance contributions.

The difficulties of the Irish economy have produced a feeling in banking circles that change is on the way. One approach has been diversification with Allied Irish Bank's spectacular acquisition of First Maryland Banking Corpn. for I£109m.

It represents a major step, with First Maryland's assets equivalent to 40 per cent of AIB's own $98bn assets. If it succeeds, it will enable AIB to leap outside the constraints of the small Irish economy and operate on a larger scale.

At home, AIB's acquisition of Insurance Corporation of Ireland gives it the chance to offer a wider range of financial services, but a similar move by its main rival, Bank of Ireland, fell foul of Government opposition. B of I made a bid for the Irish Civil Service Building Society which had the unique distinction for a building society of having publicly-quoted shares.

The Government, however, plans legislation to block the deal, claiming that it would be unacceptable for a bank to control a building society. Bank of Ireland disputes this, and officials privately blame pressure from the powerful building society lobby.

Whatever the outcome, competition between the different financial institutions seem certain to increase, and provoke more calls for them all to be treated on an equal basis. A recent study commissioned by the Irish Banks' Standing Committee from economic consultants Davy Kelleher M'Carthy recommended such a move, together with an end to the control of interest rates and charges by the Central Bank.

This would break up the 'cartel' of the four "associated banks"—AIB, B of I, Ulster and Northern. (The latter two are subsidiaries of Nat West and Midland Bank.)

Bankers are particularly upset by the non-disclosure elements enjoyed by the building societies, which do not have to give details of individual accounts to the tax authorities.

They feel, not just that this makes the societies a haven for tax evaders, but is an attraction for depositors who do pay tax but derive comfort from the feeling that their secrets are safe.

The building societies' market share has risen to 20 per cent, while that of the banks has been falling in the past five years. The societies claim they offer a better service, with more flexible opening, but there is increasing competition from tax-efficient insurance schemes and from Government index-linked bonds and Post Office schemes.

The associated banks would probably like to see the cartel disappear but the Dublin manager of the Trustee Savings Bank, for one, has queried whether they would be so willing to open up clearing facilities to competitors.

There is a belief that control of interest rates could be eased in the near future, in line with UK experience. Reform of the tax system, where powerful interests are at stake, could take longer.

Relations with the Government remain uneasy, largely because of the continuing levies on the Irish banks. There were introduced as a temporary measure in 1982, but have now totalled I£75m in three years.

Confusion increased this year when Finance Minister Alan Dukes promised to abolish the tax-based lending to companies by the banks.

Conditions have also been difficult for merchant banks, with those which have Irish banks as parents enjoying an advantage over foreign banks in the range of packages they can offer.

Even so, one banker calculated that margins had declined by up to 40 per cent in the past four years and those who came late to the Irish scene are finding things especially difficult. Royal Trust, Bank of Canada decided to pull out of Ireland last year and bankers wonder if more will follow its example.

This would have increased the banks tax charges and given the Government an opportunity to phase out the levy. But the Government had under-estimated the importance of tax-based lending to important industries like dairying, and to several key companies, which are able to obtain loans close to European interest rates.

The measure was restored but leaving the banks with their tax-based facilities for this year already fully loaned, and with an uneasy feeling that the levy might be around for some time yet. It would be difficult for the Irish Labour Party, the junior partner in the ruling coalition, to sanction an end to the levy without an increase in the taxes paid by banks.

Bankers feel that, if their capital base is not to be eroded, the levy will have to be passed on to customers in the form of higher charges, which have been pegged for 10 years.

The banks are free to press ahead with improved customer services and efficiency. There has been a rapid expansion of automatic teller machines (ATMs) and in the banks' own computerisation plans.

Bank of Ireland had a novel scheme to enable its staff to buy home computers last Christmas at bulk discount rates as a way of familiarising people with electronics. There have been no serious staff problems over the new technology, after the 25 per cent pay agreement two years ago, but the powerful Irish Banks Officials' Association is making threatening noises about tight Government pay guidelines this year.

One inevitable side-effect of technology is the closing of a favoured job for employment for Ireland's job-hungry youngsters. Staff numbers are declining by about 2 per cent a year and, when one bank advertised 100 jobs recently, it got 10,000 applications.

Reports on other European countries will be featured in Part Two of this Survey which will appear next Tuesday, May 29.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

U.S. BONDS

Fed likely to stick to policy of temporary accommodation

THE FEDERAL RESERVE Board's policy making Federal Open Market Committee (FOMC) meets tomorrow against the backdrop of a crisis in the U.S. banking industry which, together with tension in the Middle East, has sent shock waves through the international financial markets. There is also mounting concern about international debts—prompted in part by soaring U.S. interest rates—a *surging domestic economy* accompanied by booming private credit demand, and the political pressure of an election year.

The crucial question for the U.S. money and credit markets will be how the Fed responds to this tremendous set of challenges—indeed, whether its carefully charted monetary policy could be totally upstaged by events.

U.S. INTEREST RATES (%)

	Week to May 18	Week to May 11
Fed funds weekly average	10.52	10.48
3-month CD's	11.15	11.40
3-month T-Bills	9.58	9.91
30-year Treasury Bond	13.58	13.39
AAA Utility	14.63	14.63
AA Industrial	14.25	14.25

Source: Salomon Brothers (estimates). In the week to May 7 M1 increased by $4.9bn to $539.4bn.

The mettle of the markets has been severely tested in the past ten days, first by what amounted to an "investors' strike," when the Treasury *attempted to auction $16.5bn of* new paper into an already depressed market, and second, last week, by the woes of Continental Illinois.

The Fed, at least temporarily, has been forced to abandon short-term monetary concerns and adopt its historical role of lender of last resort.

While the discount window flung open to aid Continental, bank borrowings from the Fed soared to a record $4.562bn in the latest statement week, easily topping the previous record of $3.754bn in September 1974, when the Fed went to the aid of Franklin National Bank.

So far the Fed has moved cautiously to drain these additional reserves, presumably fearing the even more unsettling influence this could have on the markets. As a result, the Fed funds rate plunged from over 11 per cent 10 days ago to 9 per cent at the end of last week. Most Wall Street analysts believe that, in the absence of further shocks, this policy of temporary accommodation will continue.

Yet they doubt that the Fed is willing (or indeed is able) to abandon its basic monetary and economic objectives for very long without risking a market backlash of a different *but potentially equally dire* sort.

Other short-term interest rates have also been behaving erratically. Over the past week there has been further evidence of a flight to quality as investors ditched bank certificates of deposits (CDs) in favour of short-term Treasury bills.

There are other factors at play besides international and banking crisis concerns. On the one hand T-bills have been in short supply because of the debt ceiling, while conversely since Continental's problems surfaced, the major U.S. banks have all but stopped issuing new jumbo CDs. The result has been a see-sawing yield gap for similar maturities which was edging down towards the close last week.

The recent developments have served to underscore the acute nervousness of the credit markets, but also to obscure some of the fundamentals. Retail buyers are still rare animals, and most of the action has been left to the professionals. In other words the slight improvement in long-term market prices evident towards the end of last week is extremely fragile.

By the close on Friday the 13.25 per cent Treasury long bond, priced at 98¼ to yield 13.45 per cent was still a fraction under the 98⅞ price at the end of the previous week and notably still a point below its auction price eight days earlier.

Indeed the Treasury yield curve has steepened, helped by jittery investors who drove short-term rates, on average, down 17 to 53 basis points. Three month T-bill rates are now yielding around 9.85 per cent compared to 10.05 a month ago.

Paul Taylor

Wallenberg companies to make SKr 3bn loan issue

BY KEVIN DONE, NORDIC CORRESPONDENT IN STOCKHOLM

INVESTOR and Providentia, two of Sweden's biggest investment companies, are seeking to raise SKr 3bn ($370m) from their shareholders through a subordinated loan with call options, in order to finance their purchase of 25 per cent stakes in Atlas-Copco, the engineering group, and Stora Kopparberg, the forest products concern, from Volvo.

The capital-raising exercise, the biggest ever attempted in Sweden, follows the resolution of the much-publicised power struggle between Volvo and its chairman, Mr Pehr Gyllenhammar, and Mr Peter Wallenberg, head of the Wallenberg family and chairman of Investor, Providentia, and Atlas-Copco. He is vice-chairman of Stora Kopparberg.

The two investment companies are the lynchpins of the Wallenberg federation of industrial and financial companies. However, buying back Volvo's holdings in Atlas-Copco and Stora Kopparberg—both traditionally Wallenberg concerns—has stretched their resources. They paid a premium over market prices of 35 per cent on the Stora Kopparberg shares and 26 per cent on the Atlas-Copco shares. In the process, Volvo made a capital gain of around SKr 1.3bn in less than two years.

Investor and Providentia have been forced to seek innovative solutions, never tried before in the Swedish capital market, to finance the deal. They are offering their shareholders — the biggest is the main Wallenberg family trust — units in a subordinated loan, with 10-year options to buy shares in Atlas-Copco and Stora Kopparberg.

Each unit is to be priced at SKr 400, representing the right to buy one Atlas-Copco share at SKr 150 and one Stora Kopparberg share at SKr 250. Last week, Atlas-Copco shares were trading at around SKr 126 and Stora Kopparberg shares at SKr 184. The units will be offered at the rate of one for every four shares held in Investor and Providentia.

The SKr 3.06bn subordinated loan will pay interest at 7 per cent for four years and then the market rate for an industrial bond, currently around 12 per cent.

HK$1bn loss at Grand Marine

BY DAVID DODWELL IN HONG KONG

GRAND MARINE (previously the shipping arm of the now bankrupt Carian group), which was rescued in October last year after a restructuring of its debt, has revealed losses for *the 19 months to June 30, 1983,* of HK$1.13bn (U.S.$145m).

Mr John Marshall, the chairman, said at the annual meeting that outstanding loans had been trimmed from HK$1.7bn to HK$795m. In accounts, which have been qualified by auditors Price Waterhouse, net operating losses of HK$172m were revealed and extraordinary losses amounting to HK$1.2bn.

More than half the extraordinary losses came from the sale of ships and fixed assets, with just under HK$500m provided against lower ship values. At one time, Grand Marine had a fleet of 66 ships. It now operates 10.

Von Roll fails to sell U.S. subsidiary

By John Wicks in Zurich

VON ROLL, the Swiss engineering company, has been unsuccessful in an attempt to sell New Jersey Steel Corporation (NJSCO), its loss-making U.S. subsidiary, to a group of American private investors.

Dr Paul Kohli, Von Roll's chairman, said it had not been possible to agree the financing of the deal, which had been under negotiation since last autumn. He told the annual meeting that Von Roll would continue its efforts to sell NJSCO.

Earlier this month, Dr Kohli told the Press that the potential purchasers of the company had been aiming for a "high degree of leverage through borrowed funds." He indicated that there were financing problems and said that if the negotiations failed, the Von Roll parent company would take over NJSCO from its own subsidiary, Monteforno, and seek another buyer.

Together with its Swiss steelworks parent, Monteforno, the American company has suffered total losses of SwFr 56m (U.S.$24.6m) in the two past years.

Offshore banking starts in Taiwan

BY ROBERT KING IN TAIPEI

TAIWAN WILL launch an offshore banking industry this week when it formally approves the first applications from participating banks.

So far, the Finance Ministry has received applications from the International Commercial Bank of China, Bank of California, and Citibank. Hua Nan Commercial Bank, Bank of Taiwan, First Commercial Bank, and Chang Hwa Commercial Bank have passed board resolutions to participate as well.

Eventually, all the 31 foreign bank branches and 14 local banks are expected to take part in offshore activities.

The move represents another step in the gradual opening of Taiwan's financial market to the world. It will allow foreign and local banks for the first time to lend to, and accept deposits from, institutions and individuals abroad. Planners hope the programme will help to improve banking operations here as well as attract foreign capital to the island.

Offshore operations will be free of the foreign exchange restrictions that govern other banking activities here. Profits from international transactions will be tax-free, and current capital and reserve requirements and fixed interest rates will be dropped.

The operations will take place in special departments within participating banks, which include those with only representative offices here as well as fully-fledged branches.

Activities will be assisted by the inauguration of an international financial data communications service specialising in finance sometime next year. Long-standing regulations which prohibit the transmission of computerised data have been seen as a major obstacle to the successful operation of offshore banking.

Bankers are careful to note, however, that the establishment of offshore banking will not change Taiwan into another Hong Kong or Singapore—at least not overnight. Foreign banks are most likely to use the facilities mainly as a depository for loans they now book in other offshore centres, in order to simplify their book-keeping. But Taiwanese banks will benefit both from the more direct access to foreign funds and from exposure to international banking practices.

INTERNATIONAL APPOINTMENTS

New Zealand Dairy Board makes changes

● Mr F. V. Lough, managing director of Milk Products (NZ), a subsidiary of the NEW ZEALAND DAIRY BOARD, is to return to New Zealand to become assistant general manager, responsible for the cheese division and the board's Japanese marketing operations. Mr N. Owen Jones, deputy general manager of the board since 1982, is to become executive chairman of New Zealand Milk Products Inc. the board's subsidiary in California. He succeeds Mr B. L. Stuart. Mr J. G. Beckett has been appointed assistant general manager, services, with responsibility for the control and administration of the board's transport, storage, shipping, technical, quality assurance and packaging services. Mr K. J. Kirkpatrick, presently an executive manager of the board, is to become assistant general manager of the milk proteins division.

● Mr Alan Atkinson has been appointed senior representative in Australasia based at NATIONAL WESTMINSTER BANK'S office in Sydney. He succeeds Mr Derrick Plummer who becomes controller, correspondent banking, based in London. Prior to this appointment Mr Atkinson was senior accounts executive, UK finance and marketing, London have previously spent three years as advances manager, executive office North America in New York.

● Mr Robert J. Lanigan, president and chief executive officer of Owens-Illinois, has been elected to the additional position of chairman, succeeding Mr Edwin D. Dodd, who retired following the annual meeting. Mr Lanigan, who has spent his entire business career with Owens-Illinois, served as president and chief operating officer from April 1982 until his election as chief executive officer on January 1.

● DULUX AUSTRALIA, an associate of Imperial Chemical Industries, has appointed two board members. They are Mr Christopher Hampson, an executive director of ICI Australia, and Mr Fergus Munro, finance director of the Cookson Group in the UK.

● Mr Robert V. Toppi, western regional vice president of the Aetna Life and Casualty, has been elected chairman of the NEW YORK PROPERTY INSURANCE UNDERWRITING ASSOCIATION. Prior to his election, Mr Toppi was vice chairman of NYPIUA's board and served on both the finance and audit committees.

● Mr Ronald M. Gross has assumed the additional post of chairman of ITT RAYONIER INC, headquartered in Stamford, Conn. Mr Gross remains president and chief executive.

● DAMSON OIL CORPORATION has elected Mr Allan B. Ecker as senior vice-president and general counsel. He will be based at Damson corporate headquarters in New York. He is secretary, director, and a member of the executive committee at Warner Communications Inc.

● BANK OF AMERICA has appointed Mr Jacques Favillier to the newly-created post of head of French region, based in Paris. He will remain an executive director of Bank of America International in London.

● Mr Arthur M. Hawkins has been made group executive of ITT automotive products—worldwide. Before joining ITT, Mr Hawkins was a senior vice president of Tenneco Inc.'s automotive division and general manager of its Racine-based Walker Manufacturing Company, a producer of exhaust products. He also held the posts of vice president for North American manufacturing with Tenneco Automotive and vice president operations of Tenneco's Monroe auto equipment company during his five years with Tenneco Automotive.

● At the first board meeting in Bahrain of the BAHRAINI-SAUDI BANK, Dr Abdulla al-Unaran was appointed chairman. He is a former Minister of Labour and Social Affairs in Saudi Arabia and chairman of Arab National Bank in Riyadh. A prominent Bahraini businessman, Shaikh Ibrahim bin Hamed bin Abdulla al-Khalifa, has been appointed vice-chairman. The members of the bank's *executive committee are* Mr Sami Kalksew, Mr Fahad bin Mohammed al Adel, Shaikh Abdulaziz al-Shaikh, and Mr Farouk Yousuf Almoayyed.

● At the annual meeting of CIGNA CORPORATION, Mr Robert D. Kilpatrick, president and chief executive officer, was elected to the additional office of chairman. He succeeds Mr Ralph S. Saul, who has retired. Mr Saul will continue to serve as a member of the board of directors. Mr Kilpatrick has served as president of CIGNA since the company was formed in March 1982. He was named chief executive officer in April 1983, having served as co-chief executive officer with Mr Saul from March 1982.

● G. D. SEARLE AND CO. has appointed Mr William B. Gargiulo, Jr., as executive vice-president, European operations, and Mr Fred J. Radla vice-president, Latin American operations. Mr Anatole M. Schwieger has been appointed as executive vice-president and senior adviser. The new positions become effective June 15.

● Dr Theodore Levitt, Professor of Business Administration, Harvard University Graduate School of Business, and Mr James M. Reed, senior vice-president—Finance, Union Camp Corp., have been elected to AM INTERNATIONAL INC'S board.

● Mr Robert H. Buckles has been named managing director of ROTHSCHILD INC. and president and chief investment officer of Rothschild Asset Management Inc. Ms Madelon Devoe Talley who has been president of Rothschild Asset Management since June 1982 will become chairman. Prior to joining Rothschild Mr Buckles was with Lehman Corp., a unit of Shearson Lehman-American Express.

● Credit Suisse has formed a new investment management subsidiary in the U.S.—SWISS AMERICAN INTERNATIONAL ASSET MANAGEMENT INC., New York, to provide global portfolio management services for domestic pension funds, institutions and other clients. Mr Gordon L. Bowyer has been elected president and chief executive officer of the new firm. He comes from Cole, Yeager and Wood, Inc.

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Alaska Housing 11½ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.56
American Savings 12 89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.21
Australia Com. 11¾ 90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	12.12
Australia Com. 11⅞ 95	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.45
Australia Com. 11¾ 98	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.49
Australian I. Dv. 11 89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.47
Bank of Tokyo 11¾ 90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.14
Beneficial O/S F. 12 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.58
Canada 10¾ 86	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	12.67
Citicorp O/S 11¾ 89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	12.50
DNC 11½ 91 WW	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.80
DNC 11½ 91 XW	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.05
Denmark Kgdm. 12 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.43
Denmark Kgdm. 12¾ 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.05
Digital Equip. 11½ 89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.49
Dutch Mines 11½ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.82
EDC 11¾ 89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.63
EEC 12 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.40
EIB 11½ 90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.74
EIB 11¾ 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.86
Eksportfinans 11½ 90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.92
Eurofima 12¼ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.03
Gen. El. Cr. 11 91 WW	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.11
GMAC O/S Fin. 11½ 90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.77
Gulf & Western 12¼ 89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.09
IH 12 89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.96
Ind. Bk. Japan 11⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.02
Ind. Bk. Japan 11¼ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.01
Int. Ppr. O/S Fin. 12 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	12.37
ITT Finan. 11¼ 89 WW	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.27
LTCB 11⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.83
Macy O/S 11⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.25
Mitsui Trust Fin. 12 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.55
Montreal City 12¾ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.77
Mrgn. Guaranty 12¾ 89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—
Ned. Gasunie 11½ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	12.82
Newfoundland Prov. 13 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.29
Nippon Credit 11⅞ 90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.36
Nippon Tele. 11¾ 90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.70
Nova Scotia Pr. 11½ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.92
Ontario Hydro 11⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.26
PK Banken 12 90 WW	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.76
Prudential 10⅞ 93 XW	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.05
Quebec Hydro 11½ 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.14
Quebec Prov. 12½ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.91
Royal Bk. Can. 11⅝ 89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.52
Rural & Ind. Bk. 12 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.21
Saab O/S Fin. 11⅞ 88	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.57
Saab O/S Fin. 11½ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.90
S. Pac. O/S Fin. 11 89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.03
Sears O/S Fin. 11⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.24
Sec. Pac. O/S F. 12 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SEK 11½ 89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.34
Shearson/Amex 12⅜ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.79
Sumitomo Fin. 12⅛ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.76
Sweden Kingdm. 12⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.29
Texas Inst. Int. 11⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.91
Tokai Asia 12⅝ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.63
World Bank 11¾ 90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.21

Average price changes... On day −0⅛ on week −0¾

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Allied Chemical 7⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.62
Amca Int. 8¼ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.08
AMAS 8½ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.35
Austria, Republic 7¾ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.94
Baxter Travenol 7⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.73
Credit National 8⅛ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.29
Degussa Int. Fin. 7⅜ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.42
EIB 8 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.21
EIB 8 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.31
ESCOM 8 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.33
Ferrovie Dello St. 8 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.19
Finland Rep. 7¾ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.93
Int. Standard Ele. 7⅝ 90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.44
Mogal Fin. 8⅝ 90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.24
Mitsubishi. H. 3⅝ 89 WW	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.02
Mitsubishi H. 3⅝ 89 XW	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.23
Nippon Fin. 3⅝ 89 WW	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.57
Nippon Fin. 3⅝ 89 XW	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.79
OKB 7⅝ 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.18
Pepsico O/S Fin. 7⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.48
Reynolds O/S F. 7⅝ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.45
SNCF 8⅝ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.17
Sth. Africa Rep. 8⅝ 91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.30
World Bank 7⅝ 89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.80
World Bank 7⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.18
World Bank 8 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.14

Average price change... On day −0⅛ on week +0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. Bank 6 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.91
Australia Com. 5⅜ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.46
Austria Republic 6⅛ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.68
Cofiroute 7 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.62
Consul Press 6⅜ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.37
EIB 6¾ 96	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.73
Elec. Power Dev. 5⅞ 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.46
Finland Republic 5⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.94
Int-Am Dev Bank 6 96	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.04
Japan Dev. Bank 5⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.72
Japan Fin. Corp. 5⅝ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.76
Kyushu Ele. Pwr. 5¾ 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.60
Lonrho Int Fin 6⅛ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.22
Nat. Aust. Bk. 5⅝ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.81
Newscorp 6⅛ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.16
Nippon Express 5⅛ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.27
Nippon Tel. & T. 5⅝ 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.66
Nip. Yusen K. K. 5⅝ 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.93
OKB 5⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.65
Soc. Lux. Cpt. 5⅝ 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.81
Spain Kingdom 6¾ 92	100	101½	101¾	+0½	+0⅜	5.88
Sweden Kingdom 5⅝ 94	125	99½	99¾	−0⅛	+0½	5.80
Tohoku El. Pwr. 5⅝ 92	100	99	99⅜	0	0	5.89
Transcanada Pipe 5½ 92	100	98	98⅜	−0⅛	+0½	5.80
World Bank 5⅝ 94	200	98⅜	98⅜	+0⅛	−0⅛	5.95

Average price changes... On day 0 on week +0⅛

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. Bk. 7⅝ 94	15	98⅝	99⅛	−0⅛	+0⅛	7.63
Eurofima 7⅝ 94	10	98⅛	99½	−0⅛	+0⅛	7.50
Int.-Am. Dv. Bk. 7⅞ 93	15	99⅝	100⅛	0	−0⅛	7.86
World Bank 7 94	20	95	95⅝	−0⅛	+0⅛	7.68
World Bank 7⅝ 93	20	100	100½	0	+0½	7.58

Average price changes... On day −0⅛ on week +0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Br. Col. Hyd. 12 93 C$	125	93⅝	94⅛	−0⅛	+0⅛	13.13
Br. Col. Tel. 12¾ 89 C$	70	94⅛	94⅝	0	+0⅛	13.11
Canadn. Oc. 12⅛ 89 C$	60	†94	94½	0	+0⅛	13.26
EIB 12⅛ 91 C$	80	†96	96½	−0⅛	−0½	13.11
Loblaw 12½ 90 C$	35	†92⅝	93⅛	−0⅛	−0⅛	14.19
Montreal City 12 90 C$	50	†96⅝	97⅛	+0½	+0⅛	12.89
World Bank 12⅜ 90 C$	75	96⅝	97⅛	+0⅛	+0⅛	12.92
Austria Rep 10⅛ 93 ECU	100	*94⅝	95⅝	0	+0⅛	11.52
GTE Fin. 10⅞ 92 ECU	50	*96⅝	97⅝	0	+0⅛	11.44
Amro Bank 8 89 Fl	200	98⅝	99⅛	+0⅛	+0½	8.22
Amro Bank 8¾ 88 Fl	100	102⅜	102⅞	−0⅛	+0⅛	8.00
Bk Mees & H. 8⅛ 89 Fl	100	99⅜	99⅝	−0⅛	+0⅛	8.40
Int. Stand. El. 8½ 89 Fl	100	101½	101⅝	0	+0⅛	8.12
PHP 8⅛ 89 Fl	75	99⅜	99⅞	0	0	8.33
Rabobank 9 88 Fl	100	103⅛	103⅜	0	+0⅛	8.03
OKB 14 86 FFr	400	†101	102	0	0	12.88
Solvay et C. 14¾ 88 FFr	200	†102	103	+0⅛	+0⅛	13.03
Air Canada 11⅛ 94 £	40	92⅝	93⅛	−0⅛	+0⅛	12.51
Commerzbank 11½ 90 £	25	88½	89⅛	−0⅛	−0⅛	11.72
CNCL Europe 11⅛ 92 £	50	94½	95⅛	−0⅛	+0⅛	12.42
Denmark 10⅜ 89 £	75	94⅛	94⅞	+0½	−0⅛	12.30
EEC 11⅛ 94 £	50	94½	95⅛	0	−1⅛	12.28
EIB 10⅜ 92 £	50	91⅛	92½	0	−0⅛	12.36
Finland Rep. 11⅞ 88 £	50	99⅞	100⅜	0	+0⅛	11.75
Forsmarks 10⅝ 99 £	40	93⅛	94⅛	0	−0⅛	11.48
IBJ 11⅝ 95 £	30	96⅝	97½	0	+0⅛	12.07
III 10⅜ 93 £	25	92⅝	93⅛	−0⅛	−0⅛	12.00
Int. Stand. El. 11⅛ 89 £	50	96⅝	97½	+0⅛	−0⅛	11.92
Ireland 11⅝ 94 £	50	92⅛	93	−0⅛	−0⅛	12.72
New Zealand 10⅝ 89 £	100	94⅛	94⅝	+0⅛	+0⅛	12.16
SNCF 11⅛ 94 £	60	81⅛	82⅛	−0⅛	−0⅛	12.75
World Bank 10⅛ 89 £	100	94⅛	95	0	+0⅛	12.13
Electrolux 10 89 LuxFr	500	97⅝	98⅞	−0⅛	−0⅛	10.43
CNCL 10⅜ 93 LuxFr	600	99½	100½	−0⅛	−0⅛	10.74

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
Arab Banking 5⅞ 96	0⅛	*†98½	99	15/9	10.81	10.95
BBL Int. 5 89	0⅛	98⅛	98⅝	11/10	11.19	11.39
Banca Naz Lavor 5¾ 91	0⅛	*†98½	99	26/10	11.44	11.58
Bank of Montreal 5 96	0⅛	99⅛	99⅞	27/10	11.19	11.23
Banque Indosuez 5⅛ 99	0⅛	98⅝	99⅛	21/9	11.06	11.16
Barclays O/S I. 5 2004	0⅛	97⅝	98	2/9	10.56	10.79
BFG Fin. 5⅛ 96	0⅛	98⅝	99⅛	1/6	10⅛	10.47
Commerzbk. 5⅛ 89 XW	0	99⅛	99½	21/6	10	10.06
Creditanstalt Bk. 5 96	0⅛	97⅝	98	23/8	10½	10.73
Dai-Ichi Kangyo 5⅛ 96	0⅛	†98⅝	99⅛	10/11	12⅛	12.26
Dresdner Fin. 5⅛ 89	0	99⅛	99½	23/5	10⅛	10.31
EDF 5⅛ 99	0⅛	†98⅛	98½	23/8	10.56	10.74
Ferrovie Stato. 5⅛ 99	0⅛	†98⅝	98⅞	31/9	10.69	10.82
Lloyds Euro. 5 2004	§0⅛	97⅝	98	16/10	11.31	11.56
Midland Int. Fin. 5 99	§0⅛	98	98⅛	6/9	10.56	10.76
Mitsui Finance 5⅛ 96	0⅛	98⅛	98½	1/9	10.56	10.74
Mort Bk Denmark 5⅛ 96	‡0⅛	99½	99⅞	11/8	11	11.04
Nat. West. Perp. 5 89	0⅛	99⅞	100⅛	10/11	12.44	12.44
Neste Oy 5⅛ 94	0⅛	98⅝	98⅞	23/8	10.56	10.67
Oster Land 5⅛ 99	§0⅛	†97⅝	98⅛	11/10	11.19	11.42
Queensland Coal 5⅛ 96	0⅛	99⅛	99⅞	9/11	11⅛	11.65
Societe Gen. 5⅛ 94	0⅛	98⅝	99	15/9	10.18	10.30
Spain 5⅛ 97	0⅛	97⅞	98⅛	23/8	10.56	10.76
Sweden Kdom. 5⅛ 2004	0⅛	†97⅛	98	22/9	11.19	11.43
Takugin 5⅛ 94	§0⅛	98⅛	98⅝	15/9	10⅛	10.91

Average price changes... On day −0⅛ on week 0

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Ajinomoto 3 99	4/84	1189	91	92	−0⅞	−1.69
BBC Bwn Boveri 4⅛ 95	2/84	708	†93	94½	0	−4.15
Daiwa Sec. Co. 5½ 98	10/83	481.6	*†121½	123	−6	−3.77
Fanuc 3⅛ 98	1/84	8142	119⅛	120⅛	−2⅞	31.42
Fujitsu 3 99	5/84	1320	92½	93½	+0⅛	11.22
Honda Motor 5⅛ 98	6/83	884	123	124	−0⅛	−1.69
Konishiroku Ph. 4 98	10/83	673	85½	86½	−2⅛	−2.98
Kyowa Hakko 6⅛ 97	2/83	782	113⅛	115⅛	−4⅛	−1.30
Minebea Co. 5½ 98	5/83	667	105	106	+0⅛	−1.58
Mitsubishi Elec. 5⅛ 98	6/83	396	100	101	−0½	−1.30
Mitsubishi Heavy 4⅛ 99	1/84	263	94½	95½	+0⅛	1.06
Murata 3½ 99	2/84	2939	103⅛	104⅛	−1⅛	9.36
Nippon Oil Co. 3⅛ 99	3/84	1052	105⅛	106⅞	−0⅛	−1.26
Nippon Oil Co. 5½ 98	4/83	984	117	118	+1	−1.80
Nissan Motor 5⅛ 98	4/83	700	100	101	+0⅛	9.90
Ono Pharm. Co. 3⅛ 98	3/84	9490	138	139	+2	−6.86
Orient Leasing 5⅛ 98	6/83	2890	129⅛	130⅛	−3⅛	−6.13
Secom 5 98	11/83	2930	163	165	−1⅛	1.61
Sumitomo Corp. 2⅞ 99	5/84	593	89	90	+0⅛	6.60
Yamaichi Sec. Co. 5 98	8/83	449.5	†120	121½	−4	−8.43
Yamanouchi Ph 4 90	10/83	1808	91	92	−0⅛	22.02
Nippon Oil 2⅛ 92 SwFr	3/84	1052	108½	108⅛	−1½	−3.40
Nippon Shin. 2 92 SwFr	3/84	901	94⅛	94½	−1⅛	24.82
Sotteu Ppr. 2⅛ 92 SwFr	4/84	677	116	116⅛	−0⅛	0.02
Asics 5 92 DM	12/83	520	105½	106⅛	−0⅛	19.00
Sum Realty 6⅛ 92 DM	2/83	365	159⅛	160⅛	−8⅞	−4.08

EUROBOND TURNOVER (nominal value in $m)

	Cedel	Euro-clear
U.S. $ bonds		
Last week ...	8,654.0	17,113.2
Previous week	6,068.3	11,781.3
Other bonds		
Last week ...	1,724.6	1,732.2
Previous week	1,530.2	1,123.3

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn = The current coupon. C.yld = The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bank of Tokyo International; Blyth, Eastman, Paine, Webber International; Chase Manhattan; Citicorp International Bank; Credit Commercial de France (Securities) London; Daiwa Europe NV; EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch; Morgan Stanley International; Nomura International; Orion Royal Bank; Robert Fleming and Co.; Samuel Montagu and Co.; Scandinavian Bank; Societe Generale Strauss Turnbull; Sumitomo Finance International; S. G. Warburg and Co.; Swiss Bank Corporation International; Wood Gundy.

Closing prices on May 18

All of these securities having been sold, this announcement appears as a matter of record only.

New Issue / May, 1984

$1,500,000,000

Kingdom of Sweden

Floating Rate Notes Due 1991

The Notes are unconditional, direct and general obligations of Sweden for the payment and performance of which the full faith and credit of Sweden is pledged.

The Notes will mature on May 15, 1991. Interest on the Notes will be payable quarterly on August 15, November 15, February 15 and May 15, commencing August 15, 1984. The rate of interest for each quarterly period will be the arithmetic mean of the Weekly Interest Rates for the 13 consecutive Fridays ending on the Friday preceding the seventh calendar day prior to each Interest Payment Date. The Weekly Interest Rate for each such Friday will be .40% below the arithmetic mean of the prime lending rates of the Reference Banks; provided that the Weekly Interest Rate will not exceed a rate of .55% above the yield on three-month United States dollar domestic certificates of deposit.

Salomon Brothers Inc

The First Boston Corporation **Merrill Lynch Capital Markets** **A. G. Becker Paribas** Incorporated

Goldman, Sachs & Co. **Lehman Brothers Kuhn Loeb** Incorporated **Morgan Stanley & Co.** Incorporated

Chase Manhattan Limited

London Transport beats targets in Golden Jubilee Year.

Extract from Chairman's statement. London Transport Annual Report.

Dr. K. Bright.

Services in 1983 were more reliable than for many years past.

And for me this was one of the more heartening aspects of the year, especially when all major budget targets were met or bettered.

Increased mileage. Lower fares.

Buses and Underground trains operated more miles than budgeted, our passengers had shorter waits than in the previous year and travel also became cheaper.

The fares reduction in May, funded by the Greater London Council, enabled the Executive to launch its Travelcards, with which passengers can use both the Underground and the Buses, bringing a new flexibility to their travel options.

More passengers carried.

The combination of reduced fares and more reliable services resulted in a 16% increase in passenger travel—with the added bonus that many motorists switched to the Underground for their journeys to work; this in turn helped bus services by reducing traffic congestion, which is still the biggest obstacle to running to schedule.

£36 million surplus.

So the winning back of passengers and tighter cost control has helped London Transport to show a surplus after grants of nearly £36 million.

Fight on Fraud.

I am also determined to ensure that there is no let up in London Transport's campaign to collect the money due from fares. Nor will there be any slowing down of the efforts of our management to ensure that the money we do collect is used in the most cost-effective way to provide services to meet demand at a price which passengers can afford.

Future prospects.

The new position of London Regional Transport alongside British Rail, both reporting to the Secretary of State for Transport, presents the possibility of improved co-ordination and integration of services and of fares.

Our main obligation is to provide the best public transport for London within the guidelines set for us.

I offer my thanks to everyone in London Transport for their continuing efforts to bring this about.

Dr. K. Bright.
Chairman and Chief Executive.

Copies of the Annual Report and Accounts are available at £1 each from London Transport Information Centres and 55 Broadway or by post, priced £1.40, from The Secretary, London Transport Executive, 55 Broadway, London SW1H 0BL.

BASF'83

We announce herewith this year's

ANNUAL MEETING OF STOCKHOLDERS

on Friday, June 29, 1984, 10:00 a. m.
at the BASF Feierabendhaus, Leuschnerstraße 47
Ludwigshafen/Rhine, West Germany

Agenda

1. Presentation of the Financial Statements of BASF Aktiengesellschaft and BASF Aktiengesellschaft and its Consolidated German Subsidiaries; presentation of the Annual Reports of BASF Aktiengesellschaft and BASF Aktiengesellschaft and its Consolidated German Subsidiaries; presentation of the Supervisory Board Report.
2. Declaration of dividend.
3. Ratification of the actions of the Supervisory Board.
4. Ratification of the actions of the Board of Executive Directors.
5. Appointment of auditors.
6. Restructuring of the face value of the Company's shares.
7. Bond issues.
8. Changes to the Articles of Incorporation.

Shareholders entitled to participate in the Annual Meeting and to exercise their right to vote are those who have deposited their shares during normal office hours and in the prescribed form at a depository bank. The shares should remain deposited until the conclusion of the Annual Meeting. Shareholders have the right to vote by proxy. Depository banks are those specified in the "Bundesanzeiger" of the German Federal Republic Nr. 94 of May 18, 1984.

Depository banks in the U. K. are:
Kleinwort, Benson Limited
S.G. Warburg & Co. Ltd.

The deposit is only effective if the shares are submitted by Friday, June 22, 1984.

Ludwigshafen/Rhine, May 18, 1984
The Board of Executive Directors

BASF Aktiengesellschaft
D-6700 Ludwigshafen

BASF

This announcement appears as a matter of record only.

saga

U.S. $ 600,000,000
Term Credit Facility
for
SAGA PETROLEUM A.S.

Lead Managers

CITICORP CAPITAL MARKETS GROUP
BERGEN BANK
DEN NORSKE CREDITBANK
MORGAN GUARANTY TRUST COMPANY OF NEW YORK
CHRISTIANIA BANK OG KREDITKASSE
UNION BANK OF NORWAY LTD.

Managers

THE BANK OF NOVA SCOTIA GROUP
CHEMICAL BANK
DEUTSCHE BANK AKTIENGESELLSCHAFT
MIDLAND BANK INTERNATIONAL
CHASE MANHATTAN CAPITAL MARKETS GROUP
CREDIT LYONNAIS
MANUFACTURERS HANOVER TRUST COMPANY
UNION BANK OF SWITZERLAND

Provided by

CITIBANK (CHANNEL ISLANDS) LIMITED
BERGEN BANK A/S
DEN NORSKE CREDITBANK
THE BANK OF NOVA SCOTIA CHANNEL ISLANDS LIMITED
CHEMICAL BANK
DEUTSCHE BANK
COMPAGNIE FINANCIÈRE LUXEMBOURG
MIDLAND BANK PLC
ALGEMENE BANK NEDERLAND N.V.
BANKERS TRUST COMPANY
BANQUE INDOSUEZ
CANADIAN IMPERIAL BANK GROUP
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO
FIRST INTERSTATE BANK OF CALIFORNIA
GRINDLAYS BANK p.l.c.
THE ROYAL BANK OF CANADA GROUP
SOCIÉTÉ GENERALE
TEXAS COMMERCE BANK NA
MORGAN GUARANTY TRUST COMPANY OF NEW YORK
CHRISTIANIA BANK OG KREDITKASSE
UNION BANK OF NORWAY LTD.
THE CHASE MANHATTAN BANK, N.A.
CREDIT LYONNAIS
MANUFACTURERS HANOVER BANK (GUERNSEY) LTD.
UNION BANK OF SWITZERLAND
BANK OF AMERICA N.T. AND S.A.
BANQUE DE LA SOCIÉTÉ FINANCIÈRE EUROPÉENNE
SFE GROUP
BARCLAYS BANK INTERNATIONAL LIMITED
COMMERZBANK INTERNATIONAL
SOCIÉTÉ ANONYME
EUROPEAN BANKING COMPANY SA, BRUSSELS
THE FIRST NATIONAL BANK OF CHICAGO
THE LONG-TERM CREDIT BANK OF JAPAN, LIMITED
SCANDINAVIAN BANK LIMITED
THE SUMITOMO BANK, LIMITED
TORONTO DOMINION BANK

Engineering Banks

CITIBANK, N.A.
MORGAN GUARANTY TRUST COMPANY OF NEW YORK

Agent

DEN NORSKE CREDITBANK

February 16, 1984.

UK COMPANY NEWS

USI chief resigns as Hanson takes over

MR GORDON WALKER, chairman and chief executive of U.S. Industries (USI), Connecticut-based manufacturing conglomerate, has resigned following the company's $531m takeover by Hanson Trust.

Hanson's U.S. subsidiary, HMAC Industries, and USI, signed a definitive merger agreement last Friday under which USI becomes a wholly owned subsidiary of Hanson.

Sir Gordon White, chairman of Hanson's U.S. operations, said over the weekend that 19.38m shares of USI common stock had been tendered, which, when taken together with HMAC's holding of 1m USI shares, gives Hanson 88.3 per cent of USI.

Mr Walker had planned to make the company private in a management buyout at $20 per share, before Hanson Trust emerged on the scene and offered shareholders $23 per share.

Following his resignation, Mr David Clarke, president of HMAC, has been elected executive vice president and chief operating officer of USI.

FT Share Information

The following securities have been added to the FT Share Information Service:

Cambium Venture Capital (Section: Trusts, Finance, Land)
Charterhouse J. Rothschild Pacific Investment Trust (Ord and Warrants) (Investment Trusts)
Commercial Bank of Wales (Banks)

Substantial increase seen this year by Lex Service

PROFITS OF Lex Service in the current year are expected to be substantially higher than those for last year.

Reporting to the group's annual meeting Mr Trevor Chinn, chairman, said that in the first four months of the year profits are some 65 per cent higher than for the same period of 1983. However, he said that he did not expect that rate of profit growth to continue on a comparable basis throughout the year particularly as the group reached the later months which were exceptionally strong last year in the electronic components distribution business.

Mr Chinn told shareholders that the corporation tax changes announced in the Budget together with the increasing contribution from the overseas businesses does mean that the growth in profit after tax will not match that of the pre-tax profit in 1984.

In April the group recovered some of the registrations of new Volvo cars lost during industrial unrest experienced in March. Demand so far in May remains strong.

Mr Chinn reports that sales in the electronics components sector for the first four months of 1984 were 90 per cent higher than in those same businesses last year which covered a pre-acquisition period for most of the UK and European businesses. This has resulted in much improved profits.

For DRG first quarter pre-tax profits were ahead of the same period of 1983. Shareholders were told however that despite the better volume of demand margins remain under pressure and the result for the full year would depend in part to the extent to which the group can recoup increased material costs and also restrict unit labour costs by higher productivity.

All business groups experienced a better order inflow in the first three months and the higher level of activity which this has generated has continued into the second quarter.

At the annual meeting of BICC Lord Pennock, chairman, said that the improved level of activity observed in the latter part of 1983 has continued in the early months of 1984. Improved order levels have been maintained with the exceptions of Canada and South Africa.

At the Reckitt & Colman annual meeting Sir James Cleminson told shareholders that the early results for 1984 "make us confident that progress will be maintained."

Mr Peter Bailey, chairman of the Palma Group — formerly Montfort (Knitting Mills)—reports that the current year has started well. All companies in the group have good order books and management accounts for the first 16 weeks of the year show profits of something over £400,000.

Shareholders at the annual meeting of the Delta Group were told by Mr Geoffrey Wilson, chairman, that there was still little change in market conditions from those prevailing in the latter part of 1983. In view of the demand levels it was encouraging that the year had started well with the group continuing to benefit from the restructuring programme.

Johnson Group Cleaners started the current year well and both profit and turnover were ahead of last year. Reporting to the annual meeting the chairman said that the group was talking with other possible acquisitions. The group was confident that the American venture was soundly established and would have a progressive future.

For Ruberoid the results for 1984 would be good, according to Mr Thomas Kenny, chairman.

Yule forecasts £11.5m

Yule Catto, plantation, building products and industrial chemicals group, has published a profits forecast for 1984 with other financial information to support its bid for Donald Macpherson Group, the Cover Plus paint manufacturer.

Macpherson withdrew its initial acceptance of the £22m bid from Yule Catto when the Finnish company Tikkurila Varitehtaat Oy put in a higher cash offer of 125p per share, or £22.6m.

Yule Catto forecasts a 51 per cent increase in pre-tax profits in 1984 to £11.5m with earnings per ordinary share up 32 per cent to 22p. It hopes to recommend a 37 per cent increase in the dividend to 5.5p net.

The board says that the unaudited results for the first four months of 1984 show a 114 per cent increase in pre-tax profits to £3.9m.

The directors announce a number of other developments including the purchase of a controlling interest in a company which will increase the group's total oil palm acreage by 40 per cent; and approval for a housing development in Johor in Malaysia being built by a joint venture company. Yule Catto intends to sell its 20 per cent stake with a present market value of £9.1m in Goal Petroleum, which has an interest in Wytch Farm.

Massey-Ferguson in the black despite declining markets

DESPITE a continued general decline in markets for agricultural tractors, industrial machines and diesel engines, Massey-Ferguson Holdings achieved a return to profits in the year to the end of January 1984. The improvement was in line with predictions made by the directors last year.

Profit on ordinary activities after taxation was £365,000 compared with a loss of £42.75m in the 15 month period to January 31, 1983, when the company changed its year end. Turnover for the year was £533.76m compared with £609.16m.

Mr M. G. Bird, chairman, says that, because the company had for many years figured in the "first fifteen" of British exporters, sending abroad more than three-quarters of its production, future progress must be "heavily dependent on the state of world markets."

Mr Bird says that the British company was helped by the world-wide rationalisation programe of Massey-Ferguson of Canada, of which it is a subsidiary. This had entailed the cessation of production of tractors, industrial tractor-digger-loaders, and diesel engines in the US. Responsibility for the supply of many of the products concerned has now been assumed by the plants in Coventry, Manchester and Peterborough.

"These developments" Mr Bird says "have enhanced both the scope and the security of our manufacturing base in the UK, and we can anticipate at least some further progress in the current year."

Mr Bird says it was significant that during the period markets had, with the exception of a few limited and patchy improvements, generally declined. The main underlying reason for the profits turn-round was the reduction in operating costs which were achieved through increased efficiency at British locations. "The group is now well placed to benefit from any recovery in our major markets," he says.

Fraser seeks OFT verdict

The House of Fraser board, which next meets on Wednesday May 22 in Glasgow, is pressing the Office of Fair Trading for a verdict by the end of the week on Lonrho's attempts to pack the board with directors who represent Lonrho's interests.

Uncertainty over the number and names of nominees for the board has delayed the printing of the House of Fraser report and accounts. A list of directors standing for election to the board has to be published 21 dalys before the AGM scheduled for Thursday June 28.

The House of Fraser board also hopes to know before the AGM the conclusion of the DTI on the investigation conducted by John Griffiths QC into possible concert party buying of Fraser shares involving Lonrho last year.

Second half fall leaves Slaters down

SECOND-HALF pre-tax profits of Slaters Food Products, fresh and frozen meat USM company, dropped from £344,000 to £221,000 and left the figure for the full year ended March 30 1984 behind at £503,000, compared with £587,000. Turnover moved ahead from £9.97m to £10.44m.

The directors say that although the overall market is very competitive, they believe the company will produce results in the current year that will reflect their optimism and confidence in the future of the business.

They explain that the main reason for the disappointing results was the failure to increase turnover despite spending £200,000 on advertising. This campaign which took place during the hot summer months of last July and August, had very little effect on increasing sales. In addition the company failed to increase the sales penetration in the south of England because of poor sales representation, directors say.

Since the start of the current year, the sales force has been reorganised and a new senior executive appointed to be responsible for marketing and developing new major national accounts in the south.

After tax of £39,000 (£16,000) and an extraordinary debit of £25,000 last time, earnings per 10p share were 8p (10.8p) and the dividend is stepped up to 2.2p (1.8p) with a final payment of 1.8p. Mr D. Cooper, chairman, has waived the final on 2.75m shares.

RECENT ISSUES

EQUITIES

Issue price	Stock	Figures
[illegible]	Ascot Brit Ports	[illegible]
[illegible]	BaillieGiffordTechnol	[illegible]
[illegible]	Biotechnology Inv	[illegible]
[illegible]	Body Shop 5p	[illegible]
[illegible]	Brit. Benzol 5p	[illegible]
[illegible]	Cliff Oil Warrants	[illegible]
[illegible]	Comcap 5p	[illegible]
[illegible]	Cons.Venture	[illegible]
[illegible]	Delaney Group 10p	[illegible]
[illegible]	Eng. & Int'l Tst. War	[illegible]
[illegible]	First Leisure Corp.	[illegible]
[illegible]	Fledgeling Japan	[illegible]
[illegible]	Do. Warrants	[illegible]
[illegible]	Greggs 20p	[illegible]
[illegible]	Havelock Europa	[illegible]
[illegible]	Meadowfarm Prods	[illegible]
[illegible]	Morris(W.)Fine Arts	[illegible]
[illegible]	Osprey Communications	[illegible]
[illegible]	Panthereoils	[illegible]
[illegible]	Plan Invest. 10p	[illegible]
[illegible]	Plantation & Gen Inv	[illegible]
[illegible]	Ramco Oil	[illegible]
[illegible]	SPRAIT 50p	[illegible]
[illegible]	Do. Warrants	[illegible]
[illegible]	Sutherland (E.T.)	[illegible]
[illegible]	Tyrod (W. & J.) 5p	[illegible]
[illegible]	Utd. Biscuits Warr'nts	[illegible]
[illegible]	Wordplex 50p	[illegible]

FIXED INTEREST STOCKS

Issue price	Stock	Figures
[illegible]	Border & Southern 11¼% Deb. 2014	[illegible]
[illegible]	Britannia Arrow 9% Cnv.Uns.Ln.	[illegible]
[illegible]	Brixton Est. 11⅛pc 1st Mort. Deb. 2023	[illegible]
[illegible]	EDF 11¼% Ln. 2009	[illegible]
[illegible]	Eng. & Intl. Tst. 10½% Deb. 2014	[illegible]
[illegible]	Finland 11⅛% Ln. 2009	[illegible]
[illegible]	Home Charm 7½% Cnv. Uns. Ln.	[illegible]
[illegible]	Int. Bk. for Rec. & Dev. 11¼% Ln. 2003	[illegible]
[illegible]	MEPC 10⅞% Ln. Deb. 2024	[illegible]
[illegible]	Nationwide	[illegible]
[illegible]	Do.	[illegible]
[illegible]	Province de Quebec 12¾% Ln. 2020	[illegible]
[illegible]	TR City of London 11¼% Deb. 2014	[illegible]
[illegible]	Trinidad & Tobago 12¼% Ln. 2009	[illegible]

"RIGHTS" OFFERS

Issue price	Stock	Figures
[illegible]	Aldcorn Intnl. 10p	[illegible]
[illegible]	Amstrad 5p	[illegible]
[illegible]	Bank of Scotland £1	[illegible]
[illegible]	Brit. Car Auction 10p	[illegible]
[illegible]	Broken Hill Prop. A$2	[illegible]
[illegible]	Brown Boveri Kent	[illegible]
[illegible]	Ferguson (James) 10p	[illegible]
[illegible]	Fisher (A) 5p	[illegible]
[illegible]	Glanfield Lawrence	[illegible]
[illegible]	Intervision Video 20p	[illegible]
[illegible]	Manganese Bronze	[illegible]
[illegible]	Norton (W.E.) 1p	[illegible]
[illegible]	Santos A0.25c	[illegible]
[illegible]	Scottish TV 'A' 10p	[illegible]
[illegible]	Waco Group 20p	[illegible]
[illegible]	Websters 5p	[illegible]
[illegible]	Whatlings	[illegible]
[illegible]	Williams Hldgs	[illegible]

Renunciation date usually last day for dealing free of stamp duty. [illegible]

BASE LENDING RATES

A.B.N. Bank	9 %	■ Hill Samuel ††§	9½%
Allied Irish Bank	9½%	C. Hoare & Co. †	9 %
Armo Bank	9 %	Hongkong & Shanghai	9 %
Henry Ansbacher	9½%	Kingsnorth Trust Ltd	10 %
Armco Trust Ltd	9½%	Knowsley & Co. Ltd.	9½%
Associates Cap. Copr	9 %	Lloyds Bank	9 %
Bancso de Bilbao	9½%	Mallinhall Limited	9 %
Bank Hapoalim BM	9 %	Edward Manson & Co.	10½%
BCCI	9½%	Meghraj and Sons Ltd.	9½%
Bank of Ireland	9½%	Midland Bank	9½%
Bank of Cyprus	9½%	■ Morgan Grenfell	9 %
Bank of India	9½%	National Bk. of Kuwait	9 %
Bank of Scotland	9½%	National Girobank	9 %
Banque Belge Ltd.	9½%	National Westminster	9 %
Barclays Bank	9½%	Norwich Gen. Tst.	9½%
Beneficial Trust Ltd.	10 %	People's Tst. & Sv. Ltd.	9½%
Bremar Holdings Ltd.	9 %	R. Raphael & Sons	9 %
Brit. Bank of Mid. East	9 %	P. S. Refson & Co.	9½%
■ Brown Shipley	9½%	Roxburghe Guarantee	9½%
CL Bank Nederland	9 %	Royal Trust Co. Canada	9½%
Canad Permn't Trust	9 %	■ J Henry Schroder Wagg	8½%
Castle Court Trust Ltd.	9¾%	Standard Chartered ‖	9½%
Cayzer Ltd.	9½%	Trade Dev. Bank	9½%
Cedar Holdings	9 %	TCB	9 %
■ Charterhouse Japhet	9½%	Trustee Savings Bank	9 %
Choulartons	10½%	United Bank of Kuwait	9 %
Citibank NA	9½%	United Mizrahi Bank	9 %
Citibank Savings ¶	9½%	Volkskas Limited	9½%
Clydesdale Bank	9½%	Westpac Banking Corp	9 %
C. E. Coates	10½%	Whiteaway Laidlaw	9¾%
Comm. Bk. N. East	9½%	Williams & Glyn's	9½%
Consolidated Credits	9½%	Wintrust Secs. Ltd	9½%
Co-operative Bank *	9 %	Yorkshire Bank	9 %
The Cyprus Popular Bk	9½%		
Dunbar & Co. Ltd.	9½%		
Duncan Lawrie	9½%		
E. T. Trust	9½%		
Exeter Trust Ltd.	10½%		
First Nat. Fin. Corp.	11 %		
First Nat. Secs. Ltd	9½%		
Robert Fraser	10 %		
Grindlays Bank ‡	9 %		
■ Guinness Mahon	9 %		
■ Hambros Bank	9½%		
Heritable & Gen Trust	9½%		

■ Member of the Accepting Houses Committee.
* 7-day deposits 5.75%. 1-month 6.50%. Fixed rate 12 months £2,500 8.5% £10,000. 12 months 9%.
† 7-day deposits on sums of under £10,000 6%. £10,000 up to £50,000 6¾%, £50,000 and over 7¼%
‡ Call deposits £1,000 and over 5¾%.
‖ 21-day deposits over £1,000 7%.
§ Demand deposits 5¾%. ¶ Mortgage base rate.
†† As from close of business, Friday, May 11, 1984.

COMPANY NEWS IN BRIEF

Net revenue at English and International Trust showed an increase from £677,965 to £692,842 following lower tax of £375,765, compared with £394,886, for the year to April 5 1984.

As expected the net final dividend has been lifted from 4.5p to 4.75p which raises the total from 6p to 6.25p. Earnings per 25p share moved up from 6.21p to 6.35p.

Net asset value per ordinary share came to 277½p against 210p—at the interim stage the figure came to 243½p after prior charges at par.

Gross income rose from £1.21m to £1.42m which consisted of dividends and interest of £1.12m (£958,343), deposit interest of £49,472 (£147,610), underwriting and other commissions of £90,909 (£32,932) and subsidiaries' investment dealing profits of £162,962 (£67,749).

* * *

Although turnover of Tranwood Group, manufacturer of hosiery and associated products, fell from £5.42m to £4.81m, taxable profits for the year ended January 31 1984 moved ahead from £22,000 to £75,000.

After a tax credit of £42,000 (£54,000), minorities, £49,000 (£32,000) and extraordinary debits of £6,000 (£25,000), the attributable balance came through up from £20,000 to £62,000.

Basic earnings per 5p share were 0.71p (0.46p) and again there is no dividend.

* * *

Results before tax at the Talbex Group have sunk into losses of £617,000 against profits of £14,000 for the year to the end of July 1983. The directors say that the group has been trading at a small profit for the first six months of its current financial year.

The explain that the accounts have been delayed by the outcome of receivership at the Skelton sub-group, which is reflected in extraordinary debits of £365,000 (credits £139,000).

The main subsidiary Osmond Aerosols increased turnover on the previous year but operated well below capacity with margins under pressure. The last months of the year saw an increase in volume and an improvement in margins which has continued into the current financial year and is expected to be maintained.

The directors hope that business at Osmonds and recent management changes will lead to recovery.

Group turnover increased from £9.16m to £11.25m. Losses per share came to 2.49p against previous profits of 0.09p.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims: Australia and New Zealand Banking, Brooke Tool Engineering, Consolidated Co. Bultfontein Mine, Dutoitspan Mines, Espley Trust, Griqualand West Diamond Mining, Radio City (Sound of Merseyside).

Finals: Associated British Foods, Bishopsgate Trust, Bonusbond, Cakebread Robey, Ivory and Sime, J. S. D. Computer, Monks Investment Trust, Prince of Wales Hotels.

FUTURE DATES

Interims—
ASEA AB ... May 24
Borthwick (Thomas) ... May 31
City Site Estates ... May 31
Hanson Trust ... June 5
McCorquodale ... June 5
Union Steel Corporation (of South Africa) ... May 29

Finals—
Benlox ... May 22
British and American Film ... May 22
Brownlee ... June 8
Castings ... May 25
Central and Sheerwood ... July 6
Dawson International ... June 21
Harrisons and Crosfield ... June 14
Tranwood ... May 22

FINANCIAL TIMES STOCK INDICES

	May 18	May 17	May 16	May 15	May 14	May 11	1984 High	1984 Low	Since Compilatn High	Since Compilatn Low
Government Secs.	79.60	79.95	79.97	79.69	79.63	79.75	83.77	79.60	127.4	49.18
Fixed Interest	84.57	84.74	84.72	84.57	84.60	85.00	87.48	84.57	150.4	50.53
Industrial Ord	874.4	884.5	879.4	878.0	874.0	871.0	922.8	770.3	922.8	49.4
Gold Mines	637.8	643.4	627.5	612.2	597.8	616.6	711.7	520.2	734.7	43.5
FT-Act All-Share	519.79	523.81	519.92	515.37	511.18	511.65	536.71	470.03	536.71	61.92
FT-SE 100	1104.9	1113.0	1104.5	1094.6	1082.4	1078.7	1141.6	997.5	1141.6	997.5

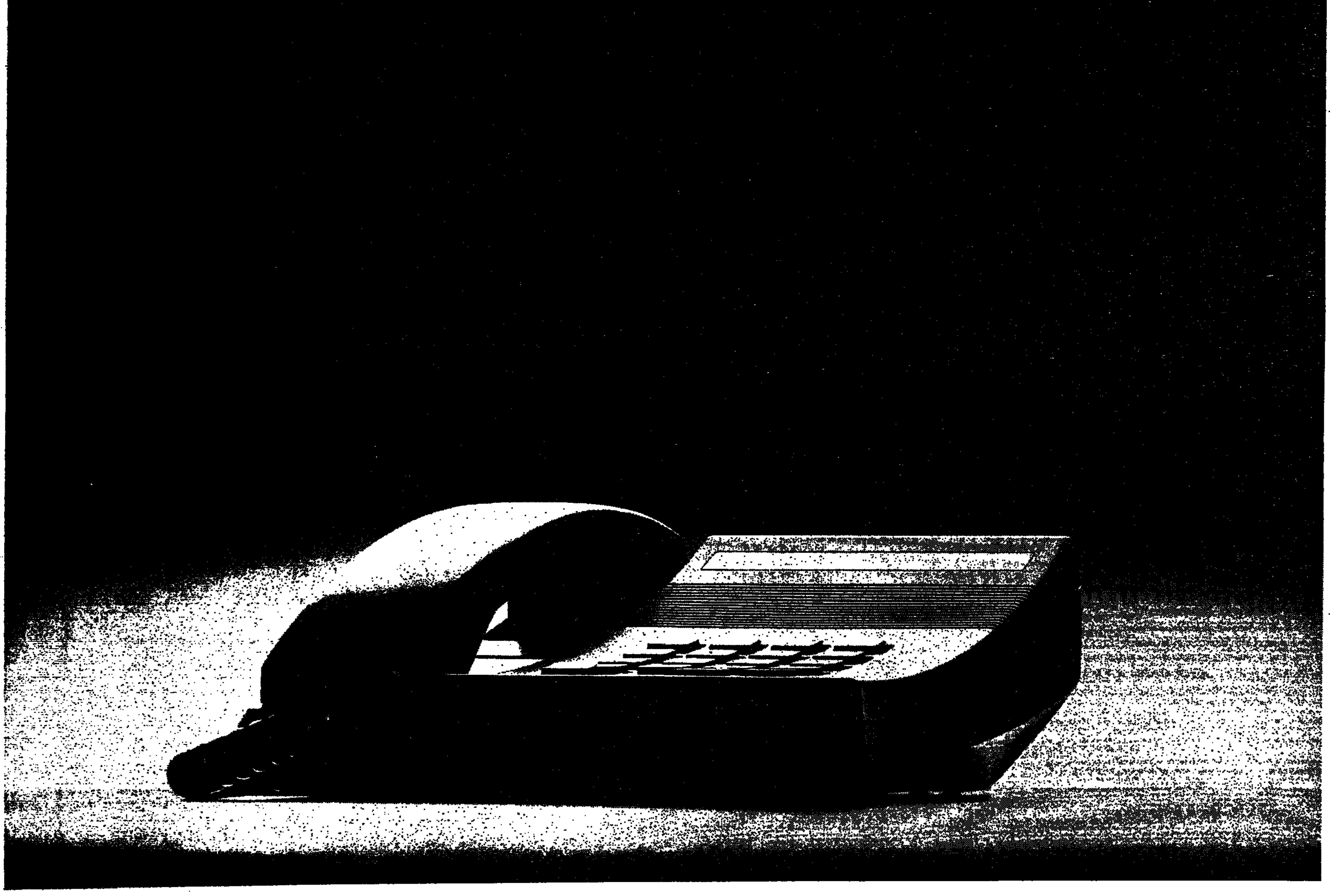
PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year		Date	Announcement last year
*Aitken Hume	May 29	Final 2.75	Johnson Firth Brown	June 3	Interim nil
*Allied-Lyons	June 6	Final due	Johnson Matthey	June 15	Final 7.0
*Anglo American Corp SA	June 4	Final 75c	Kenning Motor	June 14	Interim 2.5
Argyll Foods	June 21	Final 2.5	LWT	June 27	Final 7.0
*Ass Foods	May 21	Sec int 3.2	*London and Northern	May 23	Final 2.5
*Allied Irish Bank	May 23	Final 4.5	London & Overseas Freighters	June 17	Final nil
*ANZ	May 21	Interim 14cts	MK Elec	June 13	Final 9.0
*Avon Rubber	May 23	Interim 1	*MEPC	June 13	Interim 3.0
BPB Ind	June 14	Final 7.0	*McCorquodale	June 5	Interim 3.75
Baker Perkins	June 23	Interim 2.93	*Metal Box	June 13	Final 6.61
Beecham	June 5	Final 5.0	*Meyer Intl	June 19	Final 2.25
Berisford (S. & W.)	June 20	Interim 3	*Northern Foods	June 26	Interim 2.25
*Boots	May 31	Final 6	Pauls and Whites	June 9	Final 6.5
British & Comm. Shipping	June 16	Final 8.5	Pegler-Hattersley	June 8	Final 7.85
Burnett & Hallamshire	June 23	Final 9.5	*Pilkington Bros	June 13	Final 5.5
Cable and Wireless	June 13	Final 5.0	*Plessey	May 24	Final 1.945
Capital and Counties	May 25	Final 3	Polly Peck	May 18	Interim 2
Carless Capel	June 10	Final 1.75	Powell Duffryn	June 21	Final 5.53
*Cater Allen	May 24	Final 19.95	Premier Cons	June 14	Interim 10%
Charter Cons.	June 21	Final 7.25	*RHM	June 21	Final 4.114
*Chloride	June 15	Final nil	Racal Elec	June 22	Final 2.25
Chubb	June 14	Final 4.00	Redland	June 22	Final 5.14
Coalite	June 1	Final 3.5	Reed Intl	June 1	Final 10.0
Costain	May 28	Final 2.25	Samuel (H.)	June 1	Final 4.25
Crest Nicholson	June 22	Interim 1.25	*Sainsbury (J.)	May 22	Final 3.35
*Dewhurst Intl	June 21	Interim 1.0	Scottish and Newcastle Brws	June 28	Final 3.163
*De La Rue	June 1	Final 16.9	*600 Group	June 7	Final due
Electronic Rentals	June 2	Final 2.068	Sketchley	June 7	Final 5.4
Elliott (B.)	June 8	Final nil	*Tate & Lyle	May 30	Interim 4.5
English China Clays	June 18	Interim 3.25	Tozer Kemsley	June 13	Final nil
*Extel	May 24	Final 7.5	Trident TV	June 14	Interim 1.5
Ferguson Indl	June 13	Final 7.5	Trusthouse Forte	June 23	Interim 2
Ferranti	June 23	Final 3.7	Weerwell	May 17	Interim 1.32
*Great Portland Estates	June 8	Final 4.0	Wedgwood	June 21	Final 2.675
Guinness (A.)	June 14	Interim 1.656	Westland	June 7	Interim 2.0
*Habitat Mothercare	May 31	Final 4.0	*Whitbread	May 29	Final 4.7
Hambros	June 21	Final 37.5	Dudley Brws	May 24	Interim 2.3
*Hanson Trust	June 5	Interim 2.0			
*Harrison and Crosfield	May 30	Final 23.8			
Hickson Intl	June 2	Interim 3.0			
Hill Samuel	June 5	Final 6.3			
*ICL	May 22	Interim due			
*Inchcape	May 23	Final 11.0			
Intl Signal	June 14	Final 1.0			

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

What sort of company would employ a hi-fi designer to create a telephone?



A company like ITT.

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In Denmark, ITT approached Jakob Jensen, renowned designer of some of Scandinavia's strikingly elegant hi-fi systems, and commissioned him to style a telephone, not just for the 1980's, but way beyond.

The result was Digitel 2000.*

A single glance tells you that Digitel 2000 is beautiful. But, as with all truly good design, its beauty is more than skin deep.

The sound quality is remarkably true and you can control the volume, and even operate the phone "hands-off". The microphone and the built-in loudspeaker are so powerful you can put the receiver in the middle of a large table and leave it to pick up everybody's voice.

In other versions the Digitel 2000 can, among other things, incorporate a printer, or an answering service, store up to 60 numbers, dial calls for itself, or even be linked into a computer system, becoming a low cost terminal in its own right.

Digitel 2000, which is but one of ITT's range of advanced telephones, has been designed as the telephone of the future.

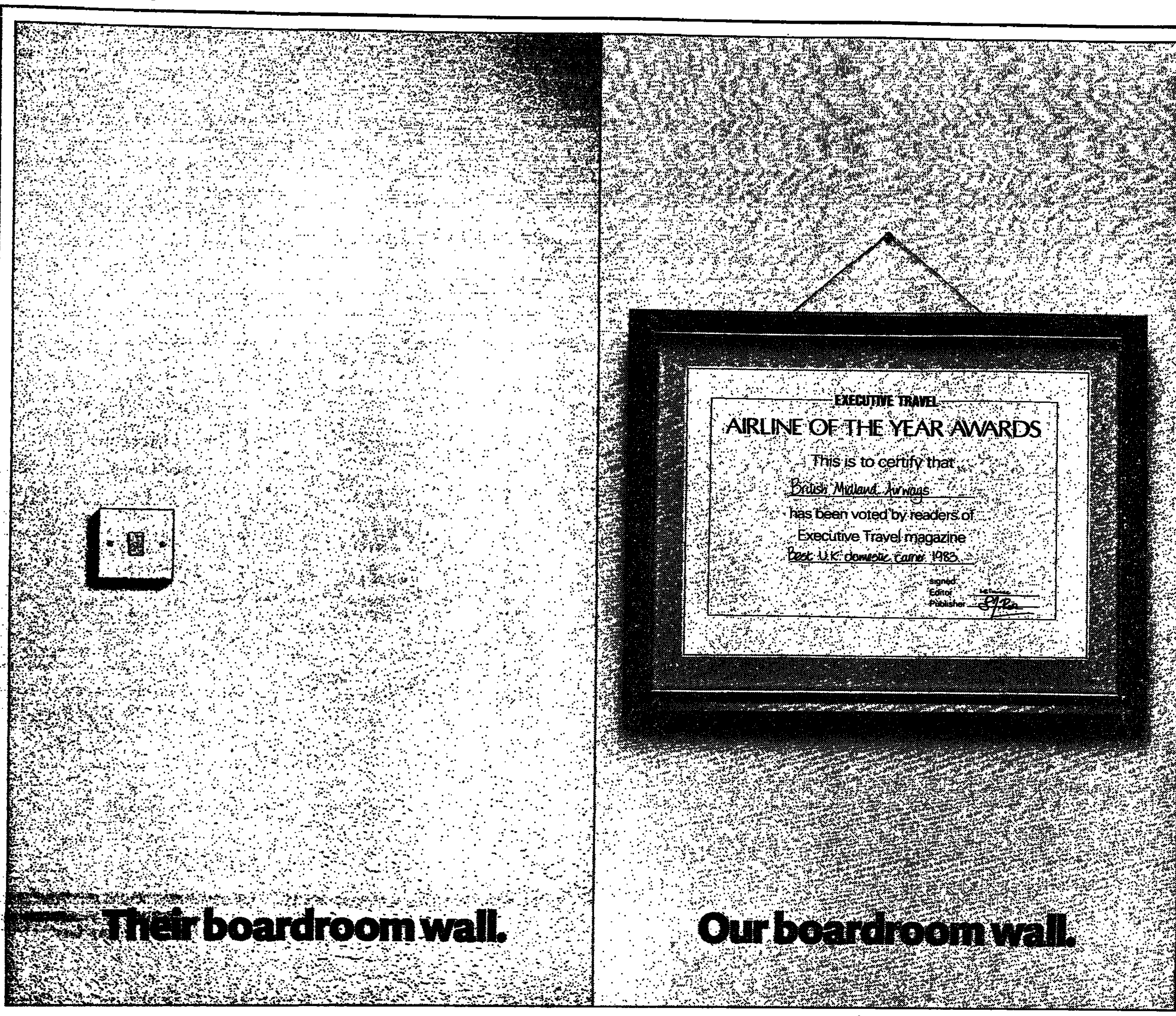
In Denmark, however, where the Jutland Telephone Company has already installed hundreds of thousands of sets, and in many other countries where Digitel 2000 is now in service in large numbers, it's very much the telephone of the present.

The best ideas are the ideas that help people.

ITT

European Headquarters, Avenue Louise 480, B-1050 Brussels, Belgium.

*A trademark of the ITT system



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And it's not because our pre-booking procedure enables the businessman to turn up and step on the aircraft, with no hanging around at the airport. Nor is it because our staff are acknowledged to be more friendly and more helpful.

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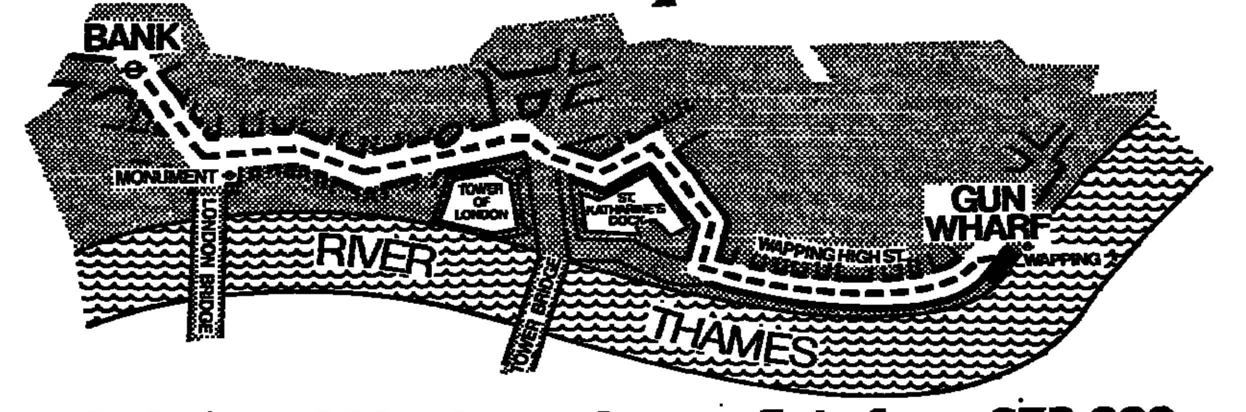

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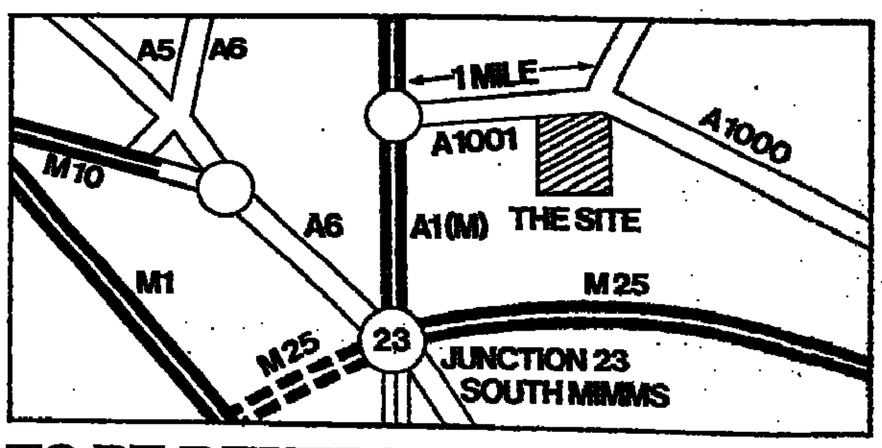

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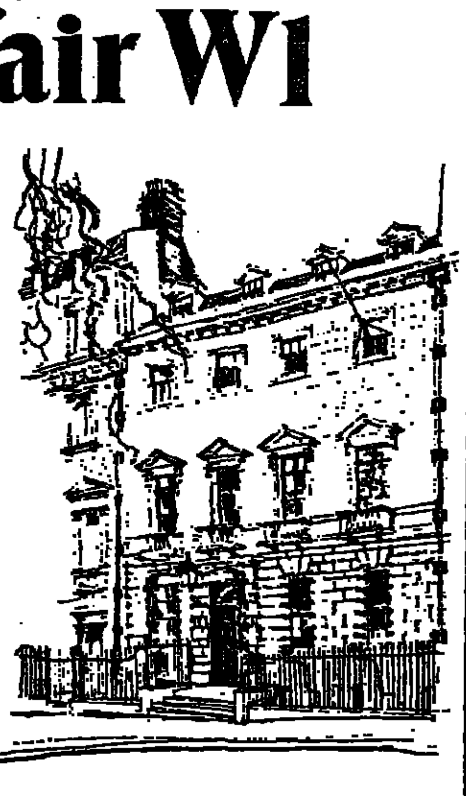

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Closing prices May 18

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls. 100s	High	Low	Close Quote	Ch'ge Prev. Close
20⅛	13¾	AAR	.44	2.2	21	40	20⅝	20⅛	20¼	
53	31½	ACF	1.40	2.7	142	414	52½	52¼	52⅜	−⅛
22	15½	AMCA	n	1	6.0	2	16¼	16¼	16¼	−¼
18⅝	13⅞	AMF	.50	3.3		489	15½	15⅛	15⅜	−⅛
41¼	26	AMR Cp			5	4692	31⅛	30⅝	30¾	−⅜
20⅝	17½	AMR	pf2.18	11		51	20	19⅝	19⅝	
41½	29⅝	AMR	pf2.13	6.6		815	33⅛	32½	32½	−1
26⅛	23	ANR	pf2.67	11.		2	23¼	23¼	23¼	
16¼	8⅛	APL			4	10	11¼	11¼	11¼	
55¼	40⅝	ARA	2.10	4.7	9	366	44½	44	44½	
75¾	50⅝	ASA	3a	4.9		532	61⅞	60¾	61¼	−⅞
33¾	17	AVX	s .32	1.6	15	237	20⅛	19⅝	19⅝	−⅜
53⅛	38¾	AbtLab	1.20	2.8	14	2806	42⅝	41¾	42⅛	−⅞
30¼	23¾	AccoWd	.60	2.2	16	186	27⅛	27	27	−½
27½	20	AcmeC	.40	2.0		258	20¾	20½	20½	
13	8⅝	AcmeE	.32b	3.6	25	13	9⅛	9	9	
24⅞	12⅝	AdmDg	.04	.3	7	26	12⅝	d12⅛	12⅛	−⅜
18¾	15⅞	AdaEx	2.11e	13.		71	16	15⅞	16	+⅛
19¾	11	AdmMl	.28	1.6	8	28	18	17⅞	17⅞	
22	14½	AdvSys	.811	5.4	15	205	14⅝	14¼	14⅝	−⅛
18½	8⅝	AdvestI	.12	1.3	11	140	9⅛	8⅞	9	−⅛
37½	22⅛	AMD	s		25	3590	31½	30⅞	31	−½
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Continued on Page 31

AMERICAN STOCK EXCHANGE COMPOSITE CLOSING PRICES

Closing prices May 18

Continued on Page 32

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Continued from Page 30

X–Y–Z

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
52⅝	37⅝	Xerox	3	7.8	9	2970	38¼	37½	38¼	+ ⅛
53½	47	Xerox	pf5.45	11		4	48½	48½	48½	+ ⅛
37	21⅞	XTRA	.2	.7	10	14	23⅝	23⅜	23⅜	− ⅛
34	24	ZaleCp	1.26	4.8	9	12	26¼	26	26	− ⅛
24⅞	15½	Zapata	.84	3.5	14	724	24	23⅝	23⅞	+ ⅛
47½	28⅛	Zayre	s.40b	1.2	10	324	35¼	34½	34⅝	− ½
38⅝	21⅝	ZenithE			10	2165	25⅞	24⅝	25⅛	−1
27⅞	19¼	Zero	s.36	1.8	16	4	20¼	20	20¼	+ ⅛
37⅞	21½	Zurnin	1.32	5.7	10	340	23½	23	23¼	+ ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a–dividend also extra(s). b–annual rate of dividend plus stock dividend. c–liquidating dividend. cld–called. d–new yearly low. e–dividend declared or paid in preceding 12 months. g–dividend in Canadian funds, subject to 15% non-residence tax. i–dividend declared after split-up or stock dividend. j–dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k–dividend declared or paid this year, an accumulative issue with dividends in arrears. n–new issue in the past 52 weeks. The high-low range begins with the start of trading. nd–next day delivery. P/E–price-earnings ratio. r–dividend declared or paid in preceding 12 months, plus stock dividend. s–stock split. Dividends begins with date of split. sls–sales. t–dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u–new yearly high. v–trading halted. vi–in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd–when distributed. wi–when issued. ww–with warrants. x–ex-dividend or ex-rights. xdis–ex-distribution. xw–without warrants. y–ex-dividend and sales in full. yld–yield. z–sales in full.

WORLD STOCK MARKETS

OVER-THE-COUNTER

Nasdaq national market, closing prices May 18

[illegible]

Continued on Page 33

CANADA

TORONTO

Closing prices May 18

[illegible]

MONTREAL

[illegible]

BELGIUM/LUXEMBOURG

1984 High	1984 Low	May 18	Price Frs.
1,265	1,220	ARBED	1,670
5,200	4,965	Banq Int A Lux	5,010
4,420	3,105	Bekaert B	4,090
2,440	2,010	Ciment CBR	2,430
329	175	Cockerill	285
5,850	4,800	Delhaize	4,800
2,790	2,290	EBES	2,595
6,990	5,850	Electrobel	6,990
2,425	2,110	Fabrique Nat	2,130
3,595	3,060	GB Inno BM	3,105
2,800	2,300	GBL (Brux)	2,300
3,300	2,970	Gevaert	3,250
6,480	5,000	Hoboken	5,440
2,175	1,805	Intercom	2,175
7,500	6,280	Kredietbank	7,450
10,000	9,020	Pan Hldgs	10,000
8,210	6,010	Petrofina	8,070
9,250	7,320	Royale Belge	9,250
3,500	2,900	Soc. Gen. Banq	3,215
1,930	1,680	Soc. Gen. Belge	1,835
6,840	5,190	Sofina	6,220
4,355	3,680	Solvay	4,250
3,875	3,125	Tractionel	3,775
5,440	4,510	UCB	5,030
4,500	3,700	Vieille Mont	4,050

HONG KONG

1984 High	1984 Low	May 18	Price H.K.$
29.7	19.8	Bank East Asia	20.8
10.6	8.0	Cheung Kong	8.0
14.5	10.6	China Light	10.7
2.97	1.65	Hang Lung Devel.	2.35
47.0	34.25	Hang Seng Bank	34.5
7.4	5.1	HK Electric	5.2
4.7	3.35	HK Kowloon Wh.	3.35
4.3	2.95	HK Land	2.95
7.76	5.92	HK Shanghai Bk.	6.2
49	35.5	HK Telephone	41.25
18.9	14.1	Hutchison Wpa	14.7
14.3	8.7	Jardine Math.	8.7
4.02	3.00	New World Dev.	3.0
2.87	2.32	Orient O'seas	2.35
4.0	2.85	O'seas Trust Bk.	2.85
8.3	5.4	SHK Props	5.95
21.0	14.0	Swire Pac A	14.8
4.2	3.17	Wheel'k Mard A.	3.2
2.3	1.64	Wheel'k Maritime	1.9
2.6	1.68	World Int. Hldgs.	1.94

AUSTRALIA

[illegible]

NETHERLANDS

[illegible]

DENMARK

[illegible]

FRANCE

[illegible]

SWEDEN

[illegible]

JAPAN

[illegible]

SINGAPORE

[illegible]

GERMANY

[illegible]

SWITZERLAND

[illegible]

SPAIN

[illegible]

NORWAY

[illegible]

SOUTH AFRICA

[illegible]

ITALY

[illegible]

AUSTRIA

[illegible]

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

AMERICAN STOCK EXCHANGE CLOSING PRICES

Continued from Page 31

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NEW YORK — DOW JONES

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TORONTO

MONTREAL Portfolio

NEW YORK ACTIVE STOCKS

** Saturday May 12: Japan Nikkei-Dow (c). TSE (c).

OVER-THE-COUNTER

Continued from Page 32

BUILDING CONTRACTS

Dew wins £15m work

Following the appointment of G. DEW AND CO, Oldham, as preferred design and build contractor for the new £6m cargo terminal at Manchester international airport, other recent awards bring the value of new contracts to over £15m.

These include a £2m contract at Accrington for Platt Saco Lowell for site demolition and a new factory construction; a £2m contract for a small harbour and marina in the United Arab Emirates; a £500,000 refurbishment contract for the Central Lancashire Development Corporation at Redcar; heavy machine bases and sundry work for Mirrlees Blackstone, Hazel Grove; a £1m office development at Brunswick Square, Oldham; sewering at Hythe for Southern Water, Kent Division, value £1.16m. Other recent contracts won by the piling division are at Knottingley for the British Waterways Board, bearing piles at St Fergus Shell Refinery for Ralph M. Parsons; sheet steel piling at the New British Library in London for Laing and at Paul village, Humberside for Land and Marine.

In the Sultanate of Oman an additional berthing facility is under construction at the Mukallah Naval Base, and Dew are engaged on preparatory works for a fishing harbour at Bayah for the Musandam Development Committee. The company was recently awarded the landscaping contract for the Sultan Qaboos University, valued at £4m, where the main contractor is Cementation International.

★

GILBERT ASH, a Bovis company, part of the P & O Group, has been awarded two projects in Edinburgh, worth in total over £7m, for the Bank of Scotland, and Scottish and Newcastle Breweries. The contract for the Bank of Scotland, is worth £5.1m, and is for a two and three-storey extension to the bank's computer centre. On Sighthill Industrial Estate the extension doubles the size of the complex where eventually up to 600 people will be employed. The exterior resembles the original but will consist of a concrete frame with brick and block infill panels. Floors and roofs are of concrete slab construction except the roof to the computer hall which is structural steel. External walling consists of roughcast panels with a GRP coloured fascia. The project will be completed at the end of January 1986.

The Scottish and Newcastle contract at the Fountain Brewery, Fountainbridge, consists of erection of a palletising and warehousing building, a single-storey racker and de-palletising building, and alterations to the existing four-storey amenity building. Value is £2.3m to finish mid-April 1985.

★

SHEPHERD CONSTRUCTION has secured contracts worth over £7m. Largest of these, in Peterborough, with a contract value of over £2.6m, is a new headquarters for computer software specialists, Peterborough Data Processing Services and its subsidiary Peterborough Software (UK). Site work has begun, for completion in November 1985. In Treforest, Shepherd has a £1.6m contract to build a recreation and community centre at Grangetown, Cardiff, for South Glamorgan County Council. Work has started for completion in September 1985.

In Darlington, Shepherd has two contracts. Fifty-eight homes comprising 43 houses and 15 bungalows are to be built at Coulby Newham, Middlesbrough, for Middlesbrough Borough Council, in a contract worth over £1m, with completion in May 1985. Repairs to fire damage at West Cumberland Hospital, Whitehaven, for Northern Regional Health Authority, will be carried out, with a contract value over £800,000, completion in December. A two-storey catering block, with communal facilities and external works at Huddersfield Technical College, for Kirklees Metropolitan Council, has a contract value over £1m, with completion in June 1985.

★

Work has started by the JOHN E. WILTSHIER GROUP with a total value of £5m. Contracts include fitting out a new store for British Home Stores in Carlisle at about £2.5m which is scheduled for completion in 30 weeks; building a secure unit for H. M. Deerbolt at Barnard Castle for £1m; extensions to Ferryhill Comprehensive School worth £580,000; alterations to police headquarters at Middlesbrough worth £222,000; 30 homes for North Housing Association in Willington Quay amount to £640,000; and stores and offices at Rawdon Leeds for the West Yorkshire Metropolitan County Council valued at £137,000. Wiltshier has been selected to submit a design and build proposal for the new Civic Centre at Mansfield.

Longley builds Gatwick transit stations

JAMES LONGLEY AND CO has won contracts at London's Gatwick Airport valued at about £13.5m. The British Airports Authority has awarded construction of the Rapid Transit System stations. The two stations are each worth £3.25m. One will be at the new North terminal and the other on the north side of the existing South terminal next to the British Rail Station. The automatic transit system will carry passengers beween the two terminals. Longleys were also awarded the term building and civil engineering airport contract. The term of the contract is for a three year period, worth about £7m

★

TAYLOR WOODROW CONSTRUCTION has received a contract, worth £3.2m, for an administration office at Babcock Power works in French Street, Renfrew. The block is a concrete-framed, four-storey structure providing 80,000 sq ft of offices in two wings and a central service core, with provision for a future wing extension if required. Elevation is of non-lead-bearing brickwork using coloured mortars. Construction has started for completion in August 1985.

★

Among work, amounting to £3m, won by MILLER BUCKLEY PARNELL in London, is a £1.7m contract awarded by Dimsdale Development (South East) for a 30,000 sq ft air-conditioned office building in the centre of Watford. The scheme entails a four-storey office building and parking space for 99 cars. Completion is for summer 1985. The GLC has awarded two further contracts to Miller Buckley Parnell, worth over £1m, for refurbishment and renovation on two housing estates in South London, at Friary and Shadwell Gardens Estates.

Company Notices

FINANCIAL TIMES
PUBLISHED IN LONDON & FRANKFURT

INTERNATIONAL & BRITISH EDITORIAL, ADVERTISEMENT & CIRCULATION OFFICES

Contracts and Tenders

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

INSURANCES

Insurances—continued

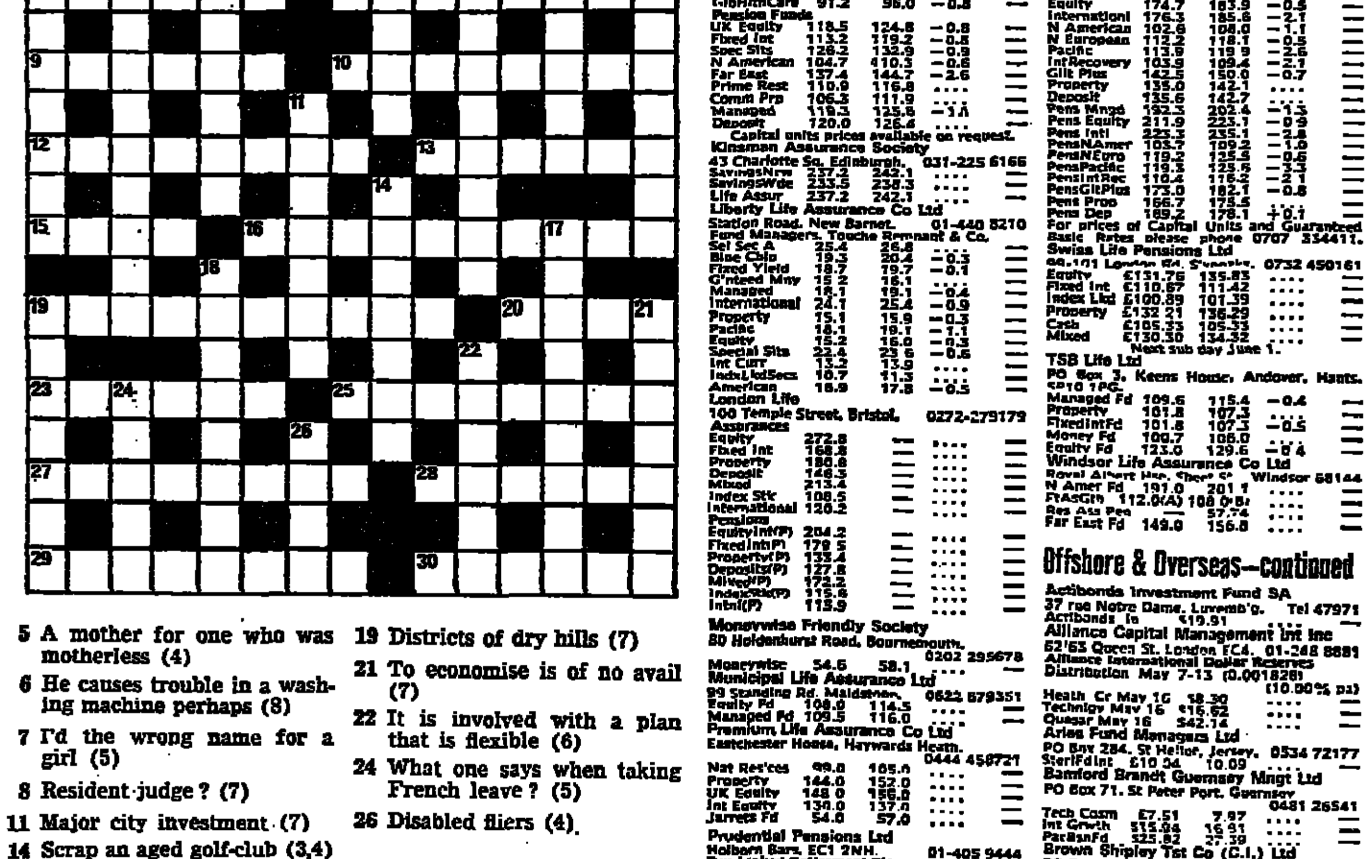
24 Ludgate Hill EC4P 4BD.		01-248 9861		
Capital Life Assurance				
KeyInvFd	—	131.09	....	—
PemkrInvFd	—	132.91	....	—
Equity Fd	134.61	141.70	....	—
FxdIntFd	111.72	117.60	....	—
Propty Fd	114.47	120.49	....	—
Cash Fd	102.91	108.33	....	—
ManagdFd	130.58	137.45	....	—
Col Mut Life (Pens-on Annuities)				
ManCpA/B	123.23	129.72	+5.84	—
ManInvA/B	124.64	131.21	+5.99	—
Commercial Union Group				

Offshore & Overseas—continued

Money Market Trust Funds

Money Market Bank Accounts

F.T. CROSSWORD PUZZLE No. 5,421



ACROSS

1 Suit the deed (6)
4 Controlling factors (8)
9 With organ study backing, got paid employment (6)
10 A fighting opponent (8)
12 Reckless injunction to keep increasing the rent (8)
13 She has pain from one side to the other (6)
15 Timber trade (4)
16 Paperhanger who mails his account? (4-6)
19 Wild revels of Australian derivation (10)
20 Jacob supplanted him in the wages audit (4)
23 Score confused with a gross (6)
25 Go to pieces and pass a mistake (8)
27 First form (8)
28 Scottish alderman that is after surety (6)
29 He ignores national customs (8)
30 Sets forth in America (6)

DOWN

1 Broken treadle had a warning notice (7)
2 She makes man target (9)
3 Specified period some time in the future (3,3)
5 A mother for one who was motherless (4)
6 He causes trouble in a washing machine perhaps (8)
7 I'd the wrong name for a girl (5)
8 Resident judge? (7)
11 Major city investment (7)
14 Scrap an aged golf-club (3,4)
17 First man to take up a craft (4,5)
18 Sauce required for a formal dinner? (8)
19 Districts of dry hills (7)
21 To economise is of no avail (7)
22 It is involved with a plan that is flexible (6)
24 What one says when taking French leave? (5)
26 Disabled fliers (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

INSURANCE & OVERSEAS MANAGED FUNDS

Lloyds Life Assurance—cont.
Gartmore Funds—Series A

American May 15	159.4	167.8	.....	—
Australian May 15	107.6	113.3	.....	—
British May 15	143.0	150.6	.....	—
Commodity May 15	131.3	138.3	.....	—
Extra Inc May 15	133.7	140.8	.....	—
Far Eastern May 15	118.3	124.6	.....	—
Gilt May 15	97.5	102.5	.....	—
Global Strat May 15	179.4	188.9	.....	—
Gold Share May 15	77.2	81.3	.....	—
High Inc May 15	136.9	144.2	.....	—
Income May 15	172.9	182.0	.....	—
Japan May 15	179.1	188.6	.....	—
Oil & Energy May 15	134.1	141.2	.....	—
Special Sits May 15	155.6	163.8	.....	—
UK Smaller Cos May 15	144.6	152.3	.....	—
Man Growth May 15	158.5	166.9	.....	—

London A'deen & Nthn. Mtl. Assur. Ltd.
129 Kingsway, London, WC2B 6NF. 01-404 0393

'Asset Builder'	68.7	72.8	.....	—

London Indemnity & Gnl. Ins. Co. Ltd
18-20, The Forbury, Reading 583511.

Money Mngr May 16	66.6	71.3	.....	—
MM Flexible May 10	59.1	62.3	.....	—
Fixed Interest May 4	57.7	60.8	.....	—

Property Growth Assur. Co. Ltd.
Leon House, Croydon CR9 1LU. 01-680 0606

Property Fund	292.6	.....	—
Property Fund (A)	284.0	.....	—
Agricultural Fund	1,152.0	.....	—
Agric. Fund (A)	1,119.9	.....	—
Abbey Nat. Fund	234.2	.....	—
Abbey Nat. Fd. (A)	233.0	.....	—
Investment Fund	141.3	-2.0	—
Investment Fund (A)	138.1	-2.0	—
Equity Fund	460.2	-2.9	—
Equity Fund (A)	450.8	-2.9	5.8
Money Fund	226.0	+0.5	—
Money Fund (A)	221.5	+0.8	—
Actuarial Fund	233.1	.....	—
Gilt-edged Fund	192.3	-0.7	—
Gilt-Edged Fd. (A)	192.3	-0.7	—
Retire Annuity	370.0	.....	—
Immed. Ann'ty	194.5	.....	—
International Fd	257.0	-3.4	—
Bldg. Soc. Life Fd.	109.4	.....	—

Property Growth Pensions & Annuities Ltd.

All W'ther Ac. Uts.	276.4	291.0	.....	—
Inv. Fd. Uts.		314.2	.....	—
Pension Fd. Uts.		266.1	.....	—
Conv. Pens. Fd.		313.4	.....	—
Cnv. Pns. Cap. Ut.		230.0	.....	—
Man. Pens. Fd.		368.5	+5.4	—
Man. Pens. Cap. Ut.		282.0	+14.1	—
Prop. Pens. Fd.		295.0	.....	—
Prop. Pens. Cap. Uts.		217.7	.....	—

Standard Life Assurance Company
3 George St., Edinburgh EH2 2XZ. 031-225 2552.

Managed	218.1	229.6	-1.4	—
Property	156.9	165.2	.....	—
Equity	271.9	286.3	-1.7	—
International	206.9	217.8	-2.3	—
Fixed Interest	171.6	180.7	-0.9	—
Index Linked	98.0	103.2	-0.3	—
Cash	134.8	141.9	.....	—
Pension Managed	259.6	273.3	-2.0	—
Pension Property	161.5	170.0	.....	—
Pension Equity	330.6	348.0	-2.2	—
Pension Intl.	249.6	262.8	-3.4	—
Pension Fxd. Int.	181.7	191.3	-1.0	—
Pension Index Linked	98.7	103.9	-0.4	—
Pension Cash	154.3	162.5	.....	—

Sun Alliance Insurance Group
Sun Alliance House, Horsham. 0403 64141

	Series (2)			(1) Bid
Managed Fund	252.4	265.7	-1.5	253.0
Index Linked Fund	112.0	117.9	.....	112.8
Equity Fund	325.3	342.5	-2.5	326.1
Fixed Interest Fund	201.7	212.4	-1.0	202.2
Property Fund	222.1	233.8	.....	222.7
International Fd	190.9	201.0	-1.0	191.4
Deposit Fund	148.2	156.0	.....	148.5
Int Bond May 15		23.31	.....	—

Series (2) Prices are for policies issued after 11/7/1982.
Series (1) These are bid prices for earlier policies.

Bank of America International S.A.
35 Boulevard Royal, Luxembourg G.D.

Worldinvest Inc.	$115.82	116.42	.....	11.90

Valued weekly on Wednesdays.

Barclays Unicorn International
1, Charing Cross, St. Helier, Jersey. 0534 73741

Unegilt Trust	44.7	46.5	.....	10.70
Unidollar Trust	$14.97	15.87	.....	1.10
Unibond Trust	$79.40	80.21	.....	11.20

1, Thomas St., Douglas, Isle of Man 0624 23282

Uni-Australian Tst.	83.5	88.9	.....	1.20
Uni-Aust. Mineral Tst.	69.1	73.6	.....	1.50
Uni-Pacific Trust	187.6	199.6	.....	—
Uni-International Tst.	75.7	80.6	.....	0.50

Bishopsgate Commodity Ser. Ltd.
P.O. Box 42, Douglas, I.o.M. 0624-23911

ARMAC* May 8	$51.15	54.39	.....	—
COUNT** May 8	£3.523	3.736	.....	1.41
CANRHO** May 8	2.536	2.690	.....	—

Original issue. *$10 and **£1. Next sub. June 4.

Bridge Management Ltd.
GPO Box 590, Hong Kong

Nicht My 15 (10for1)	Y4,690	4,810	.....	4,619
Nippon Fd May 16	$30.70	32.07	.....	0.94

Britannia Intl. Investment Mngmt. Ltd.
Box 271, Queensway House, Queen Street, St. Helier, Jersey, C.I. 0534-73114

OFFSHORE AND OVERSEAS

...

Wardley Japan Trust	$30.19	32.02	...	0.44
Wardley Prv Cap Tst	$9.61	10.18	...	0.79

WestAvon Secs (Guernsey) Ltd
Borough Hse, St Peter Port, Guernsey. 0481 27963

Gilt & Option Fd	£1.17	1.22	.....	3.00
US $ Option	$0.86	0.91	.....	—

World Wide Growth Management◊
10a, Boulevard Royal, Luxembourg

Worldwide Gth Fd	$12.22		-0.03	—

Inv. Adv: M & G. Inv. Mngt., Ltd, London.

Wren Commodity Management Ltd.
10, St. George's St., Douglas IoM 0624 25015

Wren Com. Fund	16.7	17.4	.....	—
Chinese Fund	60.1	62.6	.....	—
Precious Metal Fund	137.8	143.3		—
Vanguard Cmdy Fd.	28.6	29.4	-1.5	—
Financial Futures Fd.	55.3	57.5	.....	—

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. Z Previous day's price. § Guernsey gross. # Suspended. ◆ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ◊ Yield column shows annualised rate of NAV increase.

FT LONDON SHARE INFORMATION SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
19D	19Jun	Exch. 3pc 1984	99½	14.5	3.01	8.84
26Mar	26S	Treas 12pc 1984	100¾	20.2	11.90	9.21
22Aug	22F	Treas. 15pc 1985	103⅞	16.1	14.50	10.02
22S	22Mar	Exch. 12pc Cnv. '85	101¼	14.2	11.84	10.16
21N	21My	Treas 3pc 1985	94⅝	16.4	3.17	8.73
15Jan	15Jul	Treas 11½pc 1985	100⅝	9.12	11.39	11.15
3Mar	3Se	Treas 8¾pcCnv '85	97⅝	26.1	8.96	10.64
22May	22N	Exch. 12¼pc 1985	101⅞xd	16.4	12.02	10.79
25Aug	25Fb	Exch. 11¾pc '86	101⅜	19.1	11.59	10.81
11Oct	11Apr	Treas. 10pcCnv 1986	98¼	5.3	10.16	10.91
19N	19May	Treas 3pc 1986	89	12.4	3.37	9.16
19Nv	19My	Exch. 10½pc Cv '86	99¼	12.4	10.58	10.93
12Dec	12Jun	Treas 12pc 1986	101⅝xd	8.5	11.81	11.12
10Ja	10Jul	Treas 8½pc 1984-86‡‡	95¼	5.12	8.92	11.03
29Ap	29Oc	Exch. 14pc 1986	105¾	23.3	13.24	11.21
21May	21N	Exch. 2½pc 1986	85¼	16.4	2.92	8.98
22Jul	22Jan	Exch. 13¾pc 1987	104⅞	16.12	12.70	11.29
10Aug	10Fb	Treas 10¼%Cv '87	97¼	4.1	11.51	11.30
24Aug	24Feb	Exch 2½pc 1987	83¾	18.1	2.99	9.29
6Oct	6Apr	Exch. 10½pc 1987	97¾	1.3	10.74	11.42
1N	1May	Funding 6½pc '85-87‡‡	89	26.3	7.30	10.96
12Dec	12Jne	Treas. 10pc 1987	96⅞xd	10.5	10.37	11.43
14Jan	14Jly	Treas 3pc 1987	82¼	8.12	3.65	9.72
[illegible]						

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH AND AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BEERS, WINES—Cont.

[illegible]

BUILDING INDUSTRY, TIMBER AND ROADS

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY & STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

HOTELS—Continued

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

INSURANCES

LEISURE

LEISURE—Continued

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING ADVERTISING

PROPERTY

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Cont.

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Continued

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Finance

Diamond and Platinum

Central African

MINES—Continued

Australians

Tins

Miscellaneous

		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
		Colby Res Corp.	115	—	—	—	—
Aug.	Feb.	Cons. Murch. 10c	875	16.1	100c	1.4	0.6
Feb	Aug	Eastern Trns. Cns. 50c	£38	30.12	Q85c	4.9	2.4
		For Echo Bay Mines see Canadians					
Sept	Feb	Hampton Areas 10p	225	30.12	3.75	2.1	2.2
—		Highwood Res	170	—	—	—	—
May	Aug	Homestake Mining $1	£21⅞xd	16.5	Q20c	—	0.7
	October	Northgate C$1	290	9'77	—	—	—
Jan.	July	RTZ	620xd	14.5	18.0	q2.6	4.1
Jan	July	Do 9⅛pcLn '95-2000	£136½xd	14.5	Q9½%	♦	f7.2
—		Sabina Inds C$1	68	—	—	—	—
—		Tara Exptn $1	950	—	—	—	—

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price-earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 163(4)(a).
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 163(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ‡ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- ♦ Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ǁ No par value.

B.Fr. Belgian Francs. Fr. French Francs. §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Tax free. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1983-84. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1984. K Figures based on prospectus or official estimates for 1984. M Dividend and yield based on prospectus or other official estimates for 1983. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

			Fin. 13% 97/02	£93½	.....
Albany Inv 20p	80	−2	Alliance Gas	70	.....
Craig & Rose £1	800	.....	Arnott	233xd	+3½
Finlay Pkg. 5p	47	−3	CPI Hldgs.	85	.....
Higsons Brew.	90	−7	Carrol Inds.	138	−5
Holt (Jos) 25p	880xd	.....	Hall (R. & H.)	65	−2
IoM Stm. £1	137	−5	Heiton Hldgs.	24	.....
			Irish Ropes	43	.....
IRISH			Jacob (W.& R.)	67	+4
Exch. 12% 1985	£99	.....	TMG	50	.....
Nat. 9¾% 84/89	£88⅞	.....	Unidare	83	.....

OPTIONS — 3-month call rates

Industrials		Hawker Sidd	38	Vickers	14
Allied-Lyons	15	Hse of Fraser	26	Woolworth Hldg.	50
BOC Grp	27	ICI	42		
BSR	26	'Imps'	12	**Property**	
Babcock	17	ICL	7½	Brit Land	11
Barclays Bank	45	Ladbroke	23	Cap Counties	16
Beecham	32	Legal & Gen	45	Land Secs	25
Blue Circle	40	Lex Service	40	MEPC	25
Boots	16	Lloyds Bank	50	Peachey	17
Bowaters	25	'Lofs'	3	Samuel Props	12
Brit Aerospace	20	Lucas Inds	28	Sterling Guar.	4
BAT	15	'Mams'	14		
Brown (J.)	3	Marks & Spcr	20	**Oils**	
Burton Ord	22	Midland Bk	36	Brist. Oil & Min.	9
Cadburys	11	NEI	10	Brit Petroleum	35
Comm Union	16p	Nat West Bk	60	Burmah Oil	17
Courtaulds	11	P & O Dfd	25	Charterhall	9
Debenhams	14	Plessey	20	Premier	6
Distillers	22	Racal Elect	18	Shell	55
Dunlop	5	RHM	8	Tricentrol	20
FNFC	6¼	Rank Org Ord	24	Ultramar	60
Gen Accident	42	Reed Intnl	40		
Gen Electric	16	Sears	8	**Mines**	
Glaxo	70	TI	22	Charter Cons	24
Grand Met	30	Tesco	16	Cons Gold	58
GUS 'A'	55	Thorn EMI	55	Lonrho	12
Guardian	50	Trust Houses	18	Rio T Zinc	60
GKN	20	Turner Newall	10		
Hanson Tst	17p	Unilever	75		

A selection of Options traded is given on the London Stock Exchange Report page.

"Recent Issues" and "Rights" Page 18

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CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

One problem or another

BY COLIN MILLHAM

The dollar, sterling and the Swiss franc were the firmest major currencies last week. The Swiss franc was seen as something of a haven at a time when most other currencies were suffering from one problem or another. Strikes in major parts of German industry by engineering workers overhung the D-mark, although the major impact of this had already taken place before the disruption began, and the final result was fairly limited. Lack of demand for the D-mark does have the advantage of keeping the European Monetary System ticking over quietly however, as pressure stays off the potentially weaker currencies such as the Belgian franc.

At one time it was feared the German Bundesbank would raise its discount or Lombard rates, but in the event the central bank intervened heavily enough to deter the market from pushing the D-mark down very far against the dollar, and rates were left unchanged.

In Tokyo the Japanese yen fell to its lowest level for three months, prompting intervention by the Bank of Japan as the currency suffered from fears that oil supplies from the Gulf, which are vital to Japan, may be disrupted by the attacks on shipping caught up in the war between Iran and Iraq.

Sterling was firm, with the trade-weighted index rising to 80.4 from 80.0. In a similar way to the D-mark the NUM strike tended to undermine confidence in the pound, but this was again limited by suggestion of behind the scenes efforts to resolve the dispute. The April Public Sector Borrowing Requirement was another depressing factor as far as confidence was concerned, but the major influence was the war between Iran and Iraq. This pushed up the price of North Sea oil on the spot market, and increased the value of sterling on the foreign exchanges.

Central bank intervention prevented another sharp rise by the dollar, the U.S. interest rates had a softer tone, partly because of the rescue of Continental Illinois National Bank. But the strong support for Continental Illinois by the other U.S. commercial banks and the Federal Reserve helped confidence at the end of the week, while the dollar was also supported by expectations U.S. interest rates will remain generally firm. This view was underlined by a larger than expected rise in U.S. M1 money supply.

£ in New York

	May 18	Prev. close
Spot	$1.3875-3885	$1.3900-3910
1 month	0.24-0.26 dis	0.25-0.26 dis
3 months	0.84-0.87 dis	0.85-0.88 dis
12 months	3.65-3.70 dis	3.62-3.67 dis

£ forward rates are quoted in U.S. cents discount.

THE POUND SPOT AND FORWARD

May 18	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.3850-1.3930	1.3865-1.3875	0.24-0.28c dis	-2.16	0.84-0.88dis	-2.48
Canada	1.7940-1.8050	1.7955-1.7965	0.24-0.33c dis	-1.90	0.97-1.07dis	-2.27
Nethlnd.	4.31½-4.35¾	4.32¾-4.33¾	1¼-⅞c pm	2.85	3¾-3⅝ pm	3.12
Belgium	78.00-78.60	78.05-78.15	12-18c dis	-2.30	42-51 dis	-2.38
Denmark	14.05-14.13¾	14.05½-14.06½	1½-2¼ore dis	-1.54	5½-6½ dis	-1.69
Ireland	1.2506-1.2545	1.2505-1.2515	0.25-0.35p dis	-2.88	0.81-0.98dis	-2.86
W. Ger.	3.83½-3.87¾	3.84½-3.85½	1¼-1pf pm	3.51	3¼-3 pm	3.25
Portugal	194.00-196.25	194.75-195.25	75-220c dis	-9.08	400-825dis	-12.56
Spain	214.05-216.10	214.40-214.60	115-140c dis	-7.13	375-400 dis	-7.23
Italy	2365-2380½	2365½-2367½	11-14lire dis	-6.34	37-40 dis	-6.51
Norway	10.89-10.97¾	10.91¼-10.92¾	3½-4½ore dis	-4.19	9½-10½ dis	-3.66
France	11.78¾-11.88	11.80-11.81	2¾-3¾c dis	-3.18	9-10½ dis	-3.28
Sweden	11.21½-11.32½	11.24-11.25	1½-2½ore dis	-2.20	4¾-4¼ dis	-1.58
Japan	322¾-326¾	323¾-324¾	0.75-0.67y pm	2.63	2.35-2.23 pm	2.83
Austria	27.00-27.22	27.05-27.10	5¾-4¾gro pm	2.19	17¾-13½ pm	2.26
Switz.	3.15½-3.19	3.16-3.17	1⅝-1⅛c pm	5.45	4¾-4 pm	5.29

Belgian rate is for convertible francs. Financial franc 79.05-79.15. Six-month forward dollar 1.75-1.80c dis. 12-month 3.62-3.72c dis.

OTHER CURRENCIES

May 18	£	$		£ Note Rates
Argentina Peso	56.81-56.96	40.95-41.01	Austria	26.90-27.20
Australia Dollar	1.5505-1.5525	1.1180-1.1185	Belgium	78.70-79.50
Brazil Cruzeiro	2,088.2-2,100.8	1,505-1,513	Denmark	14.00-14.14
Finland Markka	8.0800-8.1025	5.8400-5.8450	France	11.75-11.87
Greek Drachma	151.00-151.40	108.65-108.95	Germany	3.83-3.87
Hong Kong Dollar	10.849-10.8565	7.8165-7.8185	Italy	2360-2390
Iran Rial	122.75*	88.55*	Japan	322-327
Kuwait Dinar(KD)	0.40365-0.41010	0.29525-0.29535	Netherlands	4.30½-4.34½
Luxembourg Fr.	78.05-78.15	56.28-56.30	Norway	10.87-10.98
Malaysia Dollar	3.2040-3.2115	2.3085-2.3100	Portugal	191-199
New Zealand Dlr.	2.1470-2.1520	1.5480-1.5505	Spain	207½-217½
Saudi Arab. Riyal	4.8850-4.8905	3.5210-3.5220	Sweden	11.21-11.32
Singapore Dollar	2.9270-2.9345	2.1090-2.1105	Switzerland	3.14¾-3.17¾
Sth African Rand	1.7885-1.7905	1.2895-1.2910	United States	1.38-1.40
U.A.E. Dirham	5.0945-5.1000	3.6720-3.6730	Yugoslavia	189-215

* Selling rates.

FORWARD RATES AGAINST STERLING

	Spot	1 month	3 months	6 months	12 months
Dollar	1.3870	1.3895	1.3956	1.4047	1.4237
D-Mark	3.85	3.8396	3.8177	3.7865	3.7226
French Franc	11.8050	11.8372	11.9012	12.0292	12.2708
Swiss Franc	3.1650	3.1503	3.1220	3.0782	2.9968
Japanese Yen	323.75	322.99	321.43	318.48	313.29

BANK OF ENGLAND TREASURY BILL TENDER

	May 18	May 11		May 18	May 11
Bills on offer	£100m	£100m	Top Accepted rate of discount	8.8843%	8.8843%
Total of applications	£553.09m	£356.5m	Average rate of discount	8.8564%	8.8843%
Total allocated	£100m	£100m	Average yield	9.08%	9.08%
Minimum accepted bid	£97.785	£97.785	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	3%	82%			

THE DOLLAR SPOT AND FORWARD

May 18	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.3850-1.3930	1.3865-1.3875	0.24-0.26c dis	-2.16	0.84-0.88dis	-2.48
Ireland†	1.1060-1.1100	1.1060-1.1070	0.08-0.03c pm	0.59	0.14-0.04 pm	0.32
Canada	1.2945-1.2965	1.2950-1.2955	0.04-0.02c pm	0.28	0.07-0.05 pm	0.18
Nethlnd.	3.1150-3.1205	3.1185-3.1205	1.40-1.30c pm	5.20	4.45-4.30 pm	5.62
Belgium	56.28-56.38	56.28-56.30	½-2c dis	-0.27	3 pm-par	0.11
Denmark	10.13½-10.15	10.13½-10.14	0.70-0.30ore pm	0.59	2.20-1.80 pm	0.79
W. Ger.	2.7690-2.7800	2.7730-2.7740	1.28-1.23pf pm	5.43	3.98-3.93 pm	5.71
Portugal	140.40-141.00	140.50-141.00	30-130c dis	-6.82	200-500 dis	-9.95
Spain	154.55-154.75	154.60-154.70	57-67c dis	-4.81	180-200 dis	-4.91
Italy	1706-1709½	1706-1707	6-6½lire dis	-4.39	16¼-17¼ dis	-3.93
Norway	7.8550-7.8750	7.8760-7.8750	1.10-1.40ore dis	-1.91	1.70-2.00dis	-0.94
France	8.5000-8.5350	8.5110-8.5160	0.55-0.95c dis	-1.06	1.40-1.90dis	-0.77
Sweden	8.1050-8.1225	8.1050-8.1100	0.45-0.25ore pm	0.52	2.25-2.05 pm	1.06
Japan	232.90-233.80	233.20-233.30	0.99-0.95y pm	4.99	3.11-3.07 pm	5.30
Austria	19.48-19.52	19.48-19.50	7.40-6.90gro pm	4.40	24.5-22.5 pm	4.82
Switz.	2.2760-2.2860	2.2790-2.2800	1.52-1.42c pm	7.74	4.52-4.42 pm	7.85

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 57.00-57.10.

EMS EUROPEAN CURRENCY UNIT RATES

	ECU central rates	Currency amounts against ECU May 18	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	44.9008	45.5692	+1.49	+1.43	±1.5447
Danish Krone	8.14104	8.21369	+0.89	+0.83	±1.6425
German D-Mark	2.24184	2.24473	+0.13	+0.07	±1.0642
French Franc	6.87456	6.89255	+0.26	+0.20	±1.4052
Dutch Guilder	2.52595	2.52229	-0.14	-0.20	±1.4951
Irish Punt	0.72569	0.730284	+0.63	+0.57	±1.6699
Italian Lira	1403.49	1382.15	-1.52	-1.52	±4.1505

Changes are for ECU, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

CURRENCY MOVEMENTS

May 18	Bank of England Index	Morgan Guaranty Changes%
Sterling	80.4	-10.2
U.S. dollar	132.0	+20.2
Canadian dollar	89.0	-3.1
Austrian schilling	114.8	+3.7
Belgian franc	89.8	-11.5
Danish kroner	77.6	-6.5
Deutsche mark	124.6	+7.4
Swiss franc	146.4	+11.1
Guilder	114.4	+4.3
French franc	65.8	-15.7
Lira	48.2	-18.1
Yen	157.7	+15.6

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

CURRENCY RATES

May 18	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.747086	0.582873
U.S. $	9	1.03718	0.808037
Canadian $	11.63	*	1.04713
Austria Sch	4½	n/a	15.7729
Belgian Fr	11	58.4347	45.5692
Danish Kr	7	n/a	8.21369
D'mark	4	2.87610	2.24473
Guilder	5	3.23837	2.52239
French Fr	9½	8.84352	6.89255
Lira	15½	1772.02	1382.15
Yen	5	242.495	188.636
Norwgn Kr	8	8.15483	6.36612
Spanish Pta	—	160.348	124.922
Swedish Kr	8½	8.41982	6.56368
Swiss Fr	4	2.28456	1.84491
Greek Dr'ch	20½	118.775	88.0194

* CS/SDR rate for May 17: 1.34628

EXCHANGE CROSS RATES

May 18	Pound St'rling	U.S. Dollar	Deutsche m'k	Japanese Yen	French Franc	Swiss Franc	Dutch Guild	Italian Lira	Canada Dollar	Belgian Franc
Pound Sterling	1.	1.387	3.850	323.8	11.805	3.165	4.328	2367.	1.796	78.10
U.S. Dollar	0.721	1.	2.774	233.3	8.514	2.280	3.120	1707.	1.295	56.29
Deutschemark	0.260	0.360	1.	84.09	3.066	0.822	1.124	614.7	0.466	20.29
Japanese Yen 1,000	3.089	4.284	11.89	1000.	36.46	9.775	13.37	7310.	5.547	241.2
French Franc 10	0.847	1.175	3.261	274.2	10.	2.681	3.666	2005.	1.521	66.16
Swiss Franc	0.316	0.438	1.216	102.3	3.730	1.	1.367	747.7	0.567	24.68
Dutch Guilder	0.231	0.321	0.890	74.81	2.728	0.731	1.	546.9	0.415	18.05
Italian Lira 1,000	0.423	0.586	1.627	136.8	4.988	1.337	1.829	1000.	0.759	33.00
Canadian Dollar	0.557	0.772	2.144	180.3	6.573	1.762	2.410	1318.	1.	43.49
Belgian Franc 100	1.280	1.776	4.930	414.6	15.12	4.052	5.541	3030.	2.300	100.

EURO-CURRENCY INTEREST RATES (Market closing rates)

May 17	Sterling	U.S. Dollar	Canadian Dollar	Dutch Guilder	Swiss Franc	D-mark	French Franc	Italian Lira	Belgian Franc Conv.	Belgian Franc Fin.	Yen	Danish Kroner
Short term	7¾-8	9¼ 9⅛	8¾-9¼	5⅞-6	¾-1	5⅛-5⅜	11⅛-11⅝	15-16	10¼-10¾	10¼-10¾	5⅛-5⅜	6⅞-7⅜
7 days' notice	8⅛-9⅜	9⅛-9⅜	9⅝-10⅛	5½-6⅛	1⅛-1⅜	5⅛-5⅜	11⅜-11⅞	14⅞-15⅞	10¾-11¼	11⅝-11⅞	5⅛-5⅜	8⅞-9⅜
Month	8⅞-9⅛	10¾-11	10⅜-10⅞	5½-6⅛	3⅝-3⅞	5⅜-5⅝	11⅞-12⅛	15-16½	11¼-11¾	11⅛-11¾	6⅛-6¼	10-10½
Three months	9⅝-9⅞	11⅝-11⅞	11⅛-11⅜	6⅛-6¼	3⅞-4	5⅞-6⅛	12⅜-12⅝	15½-16	11⅛-12	11¾-12	6⅛-6⅜	10⅝-11⅛
Six months	9¾-9⅞	12⅛-12⅜	12-12⅛	6⅜-6½	4⅛-4⅜	6⅛-6⅜	13⅜-13⅝	16¼-16¾	12-12½	11¾-12	6⅜-6½	10⅞-11⅜
One year	10⅛-10⅜	12⅞-13⅛	12⅝-12⅞	6¾-6⅞	4⅜-4½	6½-6⅝	14⅛-14⅜	16⅞-17⅜	12⅝-13⅛	11⅞-12⅛	6⅛-6⅜	11⅜-11⅞

Asian $ (closing rates in Singapore): Short-term 10-10¼ per cent; seven days 10½-10⅝ per cent; one month 10 15/16-11 1/16 per cent; three months 11 11/16-11 13/16 per cent; six months 12 5/16-12 7/16 per cent; one year 12⅝-12⅞ per cent. Long-term Eurodollars two years 13½-13⅝ per cent; three years 13⅝-13⅞ per cent; four years 13¾-14 per cent; five years 14-14¼ per cent nominal closing rates. Short-term rates are call for U.S. banks and Japanese yen; two days' notice.

FINANCIAL FUTURES

LONDON

THREE-MONTH EURODOLLAR $1m points of 100%

	Close	High	Low	Prev
June	88.18	88.20	87.98	88.17
Sept	87.36	87.40	87.15	87.40
Dec	86.89	86.93	86.63	86.96
March	86.52	86.56	86.32	86.60
June	86.21	86.21	86.00	86.25

Volume 8,182 (5,567)
Previous day's open int. 14,263 (14,599)

THREE-MONTH STERLING DEPOSIT £250,000 points of 100%

	Close	High	Low	Prev
June	90.67	90.70	90.50	90.67
Sept	90.08	90.08	89.98	90.11
Dec	89.57	89.57	89.47	89.61
March*	89.13	89.13	89.08	89.14
June*	88.73	—	—	88.74

Volume 1,585 (1,478)
Previous day's open int. 8,539 (8,462)
* £500,000 points of 100%

20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%

	Close	High	Low	Prev
June	103-27	104-00	103-17	104-13
Sept	103-07	103-07	103-00	103-26
Dec	102-22	—	—	103-08
March	102-10	—	—	102-28
June	101-31	—	—	102-17

Volume 3,746 (2,834)
Previous day's open int. 6,833 (6,768)
Basis quote (clean cash price of 13¼% Treasury 2003 less equivalent price of near futures contract) 20 to 32 (32nds)

STERLING £25,000 $ per £

	Close	High	Low	Prev
June	1.3905	1.3925	1.3889	1.3995
Sept	1.3995	—	—	1.4085
Dec	1.4090	—	—	1.4175

Volume 81 (115)
Previous day's open int. 2,819 (2,793)

DEUTSCHE MARKS DM 125,000 $ per DM

	Close	High	Low	Prev
June	0.3621	0.3622	0.3612	0.3648
Sept	0.3674	0.3674	0.3670	0.3701

Volume 68 (961)
Previous day's open int. 658 (445)

SWISS FRANCS SwFr 125,000 $ per SwFr

	Close	High	Low	Prev
June	0.4410	0.4410	0.4402	0.4422
Sept	0.4499	0.4499	0.4485	0.4510

Volume 41 (6)
Previous day's open int. 1,387 (1,389)

JAPANESE YEN Y12.5m $ per Y100

	Close	High	Low	Prev
June	0.4302	0.4302	0.4293	0.4320
Sept	0.4363	—	—	0.4378

Volume 7 (119)
Previous day's open int. 291 (303)

FT-SE 100 INDEX £25 per full index point

	Close	High	Low	Prev
June	108.15	108.60	107.50	109.10
Sept	107.85	108.70	107.50	109.55
Dec	109.50	110.10	108.00	110.90

Volume 616 (406)
Previous day's open int. 519 (547)

CHICAGO

U.S. TREASURY BOND (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev
June	62-01	62-11	61-19	61-19
Sept	61-12	61-22	60-30	60-30
Dec	60-29	61-05	60-14	60-15
March	60-18	60-27	60-06	60-05
June	60-10	60-18	60-04	59-30
Sept	60-04	60-13	60-02	59-24
Dec	59-31	60-06	59-29	59-19
March	59-27	60-02	59-16	59-15

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Close	High	Low	Prev
June	89.69	89.72	89.60	89.59
Sept	88.89	88.92	88.82	88.82
Dec	88.47	88.50	88.42	88.41
March	88.15	88.16	88.11	88.11
June	87.92	87.93	87.86	87.85
Sept	87.72	87.72	87.66	87.64
Dec	87.54	87.54	87.46	87.45
March	87.37	87.37	87.29	87.29

CERT. DEPOSIT (IMM) $1m points of 100%

	Close	High	Low	Prev
June	88.42	88.43	88.13	88.22
Sept	87.64	87.66	87.40	87.48
Dec	87.15	87.18	86.92	87.02
March	86.78	86.79	86.60	86.65

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Close	High	Low	Prev
June	87.99	88.02	87.72	87.80
Sept	87.18	87.21	86.93	87.03
Dec	86.69	86.70	86.46	86.56
March	86.31	86.33	86.13	86.16
June	86.00	86.00	85.89	85.88

STERLING (IMM) $s per £

	Close	High	Low	Prev
June	1.3905	1.3920	1.3885	1.3970
Sept	1.3995	1.4015	1.3970	1.4060
Dec	1.4085	1.4100	1.4060	1.4150
March	1.4175	1.4190	1.4150	1.4240

8% $100,000 32nds of 100% GNMA (CBT)

	Close	High	Low	Prev
June	66-11	66-22	66-06	66-09
Sept	65-01	65-11	64-30	65-01
Dec	64-01	64-08	63-31	64-01
March	63-07	63-14	63-06	63-07
June	62-18	—	—	62-18
Sept	62-01	—	—	62-01
Dec	61-20	61-27	61-17	61-20

WEEKLY CHANGE IN WORLD INTEREST RATES

	May 18	change		May 18	change
LONDON			**NEW YORK**		
Base rates	9-9¼	Unch.d	Prime rates	12½	Unch'd
7 day interbank	8⅝	+⅛	Federal funds	9¼	-1⅛
3 mth interbank	9¼	-⅛	3 Mth. Treasury Bills	9.86	-0.08
Treasury Bill Tender	8.8564	-0.0279	6 Mth. Treasury Bills	10.26	Unch'd
Band 1 Bills	9 1/16	Unch'd	3 Mth. C D	11.26	-0.50
Band 2 Bills	9	Unch'd	**FRANKFURT**		
Band 3 Bills	8 15/16	Unch'd	Lombard	5.50	Unch.d
3 Mth. Treasury Bills	8 9/16	+1/16	One Mth. Interbank	5.825	-0.025
1 Mth. Bank Bills	8⅞	-1/16	Three month	6.125	+0.025
3 Mth. Bank Bills	8 15/16	-1/32	**PARIS**		
TOKYO			Intervention Rate	11¾	Unch'd
One month Bills	6.15625	+0.0625	One Mth. Interbank	12	-1/16
Three month Bills	6.28125	+0.0625	Three month	12⅛	Unch.d
BRUSSELS			**MILAN**		
One month	11⅝	-⅛	One month	16 11/16	+⅝
Three month	11¾	-⅜	Three month	16 11/16	+⅝
AMSTERDAM			**DUBLIN**		
One month	5 15/16	-1/16	One month	11⅞	Unch'd
Three month	6 1/16	Unch'd	Three month	12⅝	-⅜

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, and band 3 bills 34 to 63 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week. Band 4 bills 8⅞.

MONEY MARKETS

U.S. events spread their influence

Interest rates eased last week as events in New York and Chicago spread their influence across the Atlantic. The rise in clearing bank base rates earlier this month was in reaction to the strong upward pressure on U.S. rates, and the reversal of this process has taken the pressure off London rates.

At the beginning of the week there was considerable nervousness that base rates would have to rise to at least 9½ per cent very soon, but this was largely a reaction to three-month Eurodollar rates of around 12 per cent, which have since eased.

There have been some strong distorting influences on U.S. rates recently, and this has tended to create thin nervous conditions, particularly in the important U.S. bond market.

Interest rates were first pressured upwards by the disappointing reaction to the programme of U.S. Treasury auctions held the previous week, where yields rose sharply. At that time rumours about the problems of a major U.S. bank was also tending to push rates higher, but the eventual disclosure that Continental Illinois National Bank and Trust was in difficulties and required a major rescue package prompted the opposite reaction. The very large amount of money borrowed through the Federal Reserves discount window by Continental Illinois, as nervous depositors, removed funds, had a strong impact on the Federal funds overnight rate by pumping extra liquidity into the money market. It was also suspected the Federal Reserve was refraining from draining liquidity, and keeping interest rates lower than would have been the case, if it had not been for the problems of the eighth largest bank in the U.S.

This is only likely to have a short-term impact, however, and the Federal Reserve will probably tighten its credit stance in the not too distant future as economic growth and money supply move ahead. Thursday's rise of $4.9bn in weekly M1 money supply had a limited impact because attention was so firmly focused on Continental Illinois, but further large increases are expected this month, while nearly all the economic statistics point to very fast expansion.

If the Federal Reserve moves to control these forces, then the present respite on interest rates will be short lived, and the recent fears in London, compounded by the latest PSBR figure, which encouraged the discount houses to sell as much of their longer-dated paper as possible, may soon return.

MONEY RATES

May 18	Frankfurt	Paris	Zurich	Amst'dam	Tokyo	Milan	Brussels	Dublin
Overnight	5.50-5.55	11⅛	1-2	5¾-5⅞	5.78125	16⅛-16⅞	7.65	11⅝-11⅞
One month	5.75-5.90	11 15/16-12 1/16	3 5/16-3 7/16	5⅞-6 1/16	6.15625	16⅛-16⅞	11½-11¾	11¾-12
Two months	5.90-6.05	12-12⅛	—	—	—	—	—	12⅛-12⅝
Three months	6.05-6.20	12 5/16-12 7/16	3⅝-3¾	6⅛-6¼	6.28125	16⅝-17	11⅝-11⅞	12¼-12⅛
Six months	6.20-6.35	12¼-12⅝	—	6 5/16-6 7/16	—	—	11¾-12	12⅜-12¾
Lombard	5.5	—	—	—	—	—	—	—
Intervention	—	11¾	—	5⅞	—	—	—	—

LONDON MONEY RATES

Discount Houses Deposit and Bill Rates

May 18 1984	Sterling Certificate of deposit	Interbank	Local Authority deposits	Company Deposits	Market Deposits	Treasury (Buy)	Treasury (Sell)	Eligible Bank (Buy)	Eligible Bank (Sell)	Fine Trade (Buy)
Overnight	—	4-10	8-8¼	7-8¾	4-8⅛	—	—	—	—	—
2 days notice	—	—	8⅛-8¾	—	—	—	—	—	—	—
7 days or	—	—	—	—	—	—	—	—	—	—
7 days notice	—	8⅛-9	8⅛-8⅞	8½-9¼	7¾-8⅛	—	—	—	—	—
One month	8¾-8 11/16	8 11/16-9	8¾	9⅛-9¼	8⅝-8¾	8¾-8 11/16	8½-8⅝	8 11/16	8⅝	9 1/16
Two months	9 1/16-8 15/16	9⅛-9 1/16	9	9⅝	8⅞	8 9/16	8 9/16-8⅞	8 11/16	8⅞	9 3/16
Three months	9 3/16-9 1/16	9⅛-9 3/16	9¼	9½	9	8 11/16	8 9/16-8⅞	8 11/16	8⅞	9 5/16
Six months	9⅝-9½	9 11/16-10	9⅝	—	—	—	—	9 1/16-9½	9 9/16	10⅛
Nine months	9 15/16-9¾	9 15/16-10 3/16	9¾	—	—	—	—	—	—	—
One year	9 15/16-9 13/16	10 1/16-10 3/16	10 1/16	—	—	—	—	—	—	—

	Local Auth. negotiable bonds	Local Authority Deposits	Finance House Deposits	$ Cert of Deposits	SDR Linked Deposits	ECU Linked Deposits
One month	9⅛-9¼	—	8 11/16	10.85-10.75	9 3/16-9 1/16	8 11/16-9
Two months	9⅝-9⅜	—	9	11.15-11.25	9 5/16-9 11/16	9-9 3/16
Three months	9¾-9½	—	9⅝	11.4-11.5	9 11/16-10 1/16	9 7/16-9⅝
Six months	9⅞-9⅝	—	9⅞	12.05-12.15	10¼-10⅛	9⅝-9 15/16
Nine months	10⅛-10¼	—	10⅛	12.2-12.4	—	—
One year	10⅛-10¼	—	10¼	12.5-12.8	10 11/16-10 15/16	10⅛-10 5/16
Two years	—	10⅝	—	—	—	—
Three years	—	11	—	—	—	—
Four years	—	11¼	—	—	—	—
Five years	—	11¼	—	—	—	—

ECGD Fixed Rate Export Finance Scheme IV Average Rate of interest period April 4 to May 1 1984 (inclusive): 8.934 per cent. Local authorities and finance houses seven days' notice, others seven days' fixed. Finance Houses Base Rate (published by the Finance Houses Association): 9 per cent from May 1, 1984. London and Scottish Clearing Bank Rates for lending 9-9¼ per cent. London Deposit Rate for sums at seven days' notice 5¾-6 per cent. Treasury Bills: Average tender rates of discount 8.8564 per cent. Certificates of Tax Deposit (Series 6). Deposit of £100,000 and over held under one month 9¼ per cent; one-three months 9¼ per cent; three-six months 9¼ per cent; six-nine months 10 per cent; nine-12 months 10¼ per cent. Under £100,000 9 per cent from May 10. Deposits held under Series 4-5 10 per cent. The rate for all deposits withdrawn for cash 7 per cent.

NEW YORK (4 pm)

Prime rate	12½
Broker loan rate	11¼-11½
Fed funds	8½
Fed. Funds at intervention	9⅛

Treasury Bills

One month	8.45
Two month	9.30
Three month	9.79
Six month	10.24
One year	10.57

Treasury Bonds

Two year	98¾
Three year	98½
Four year	97¾
Five year	94⅝
Seven year	95¾
10 year	98¾
30 year	98⅛

FT LONDON INTERBANK FIXING

LONDON INTERBANK FIXING
(11.00 a.m. May 18)

3 months U.S. dollars

bid 11 3/4	offer 11 7/8

6 months U.S. dollars

bid 12 5/16	offer 12 7/16

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

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